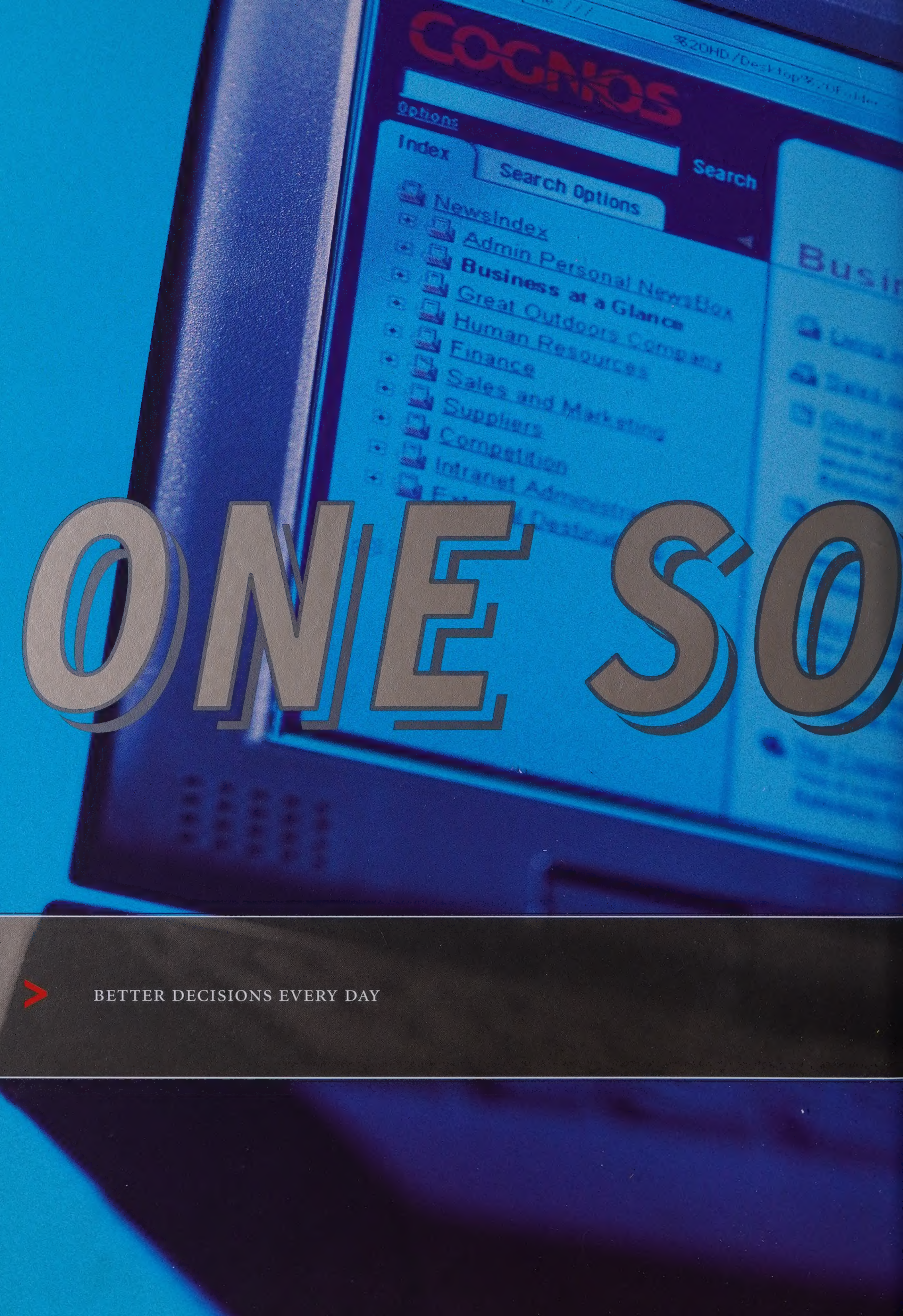
HERE. NOW.

Cognos Incorporated Annual Report 1999

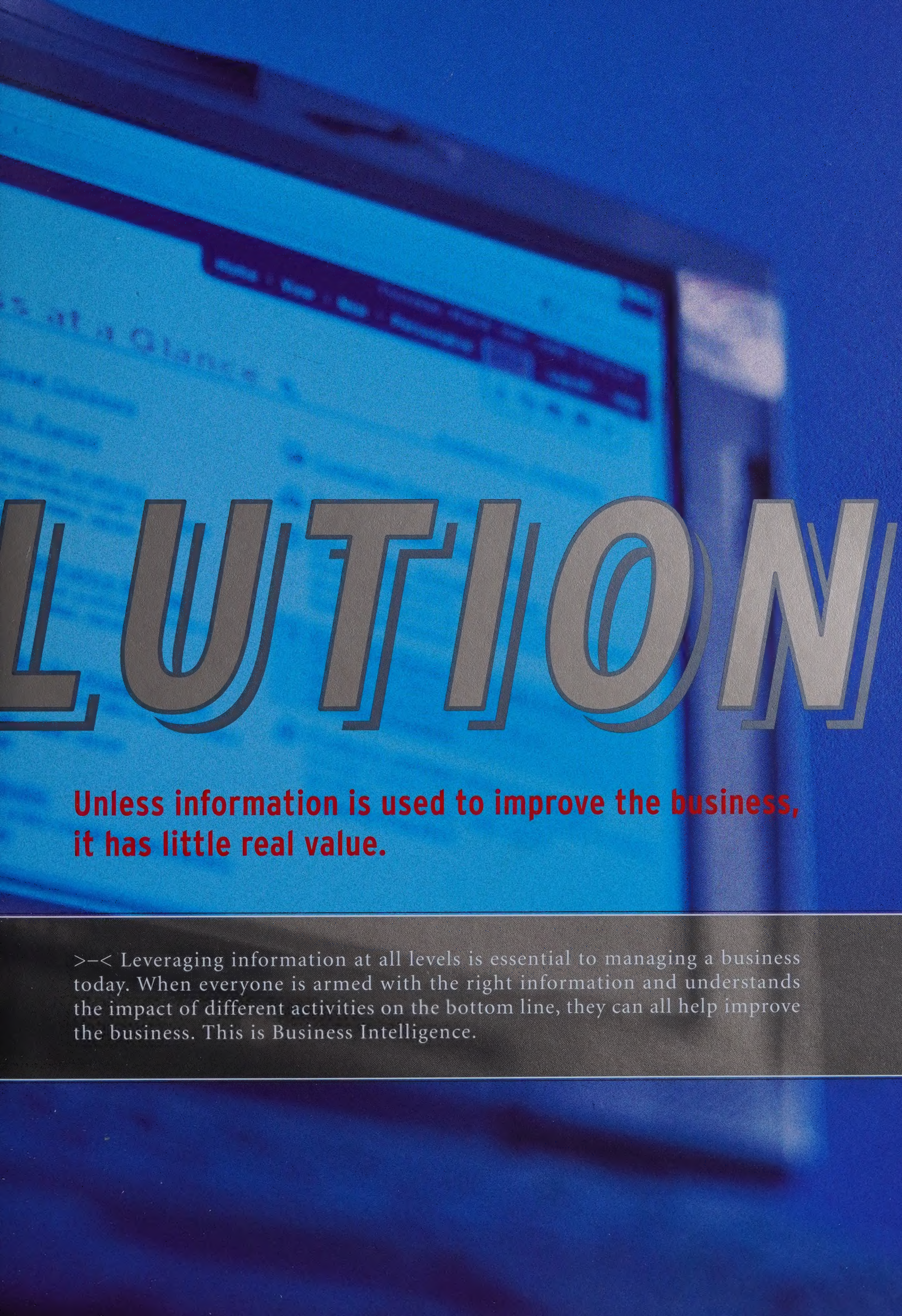
COGNOS®

> The Internet has created an information explosion—and fundamentally changed the way companies do business. The options: master information and realize its full potential, or risk losing competitive advantage.



ONE SO

> BETTER DECISIONS EVERY DAY

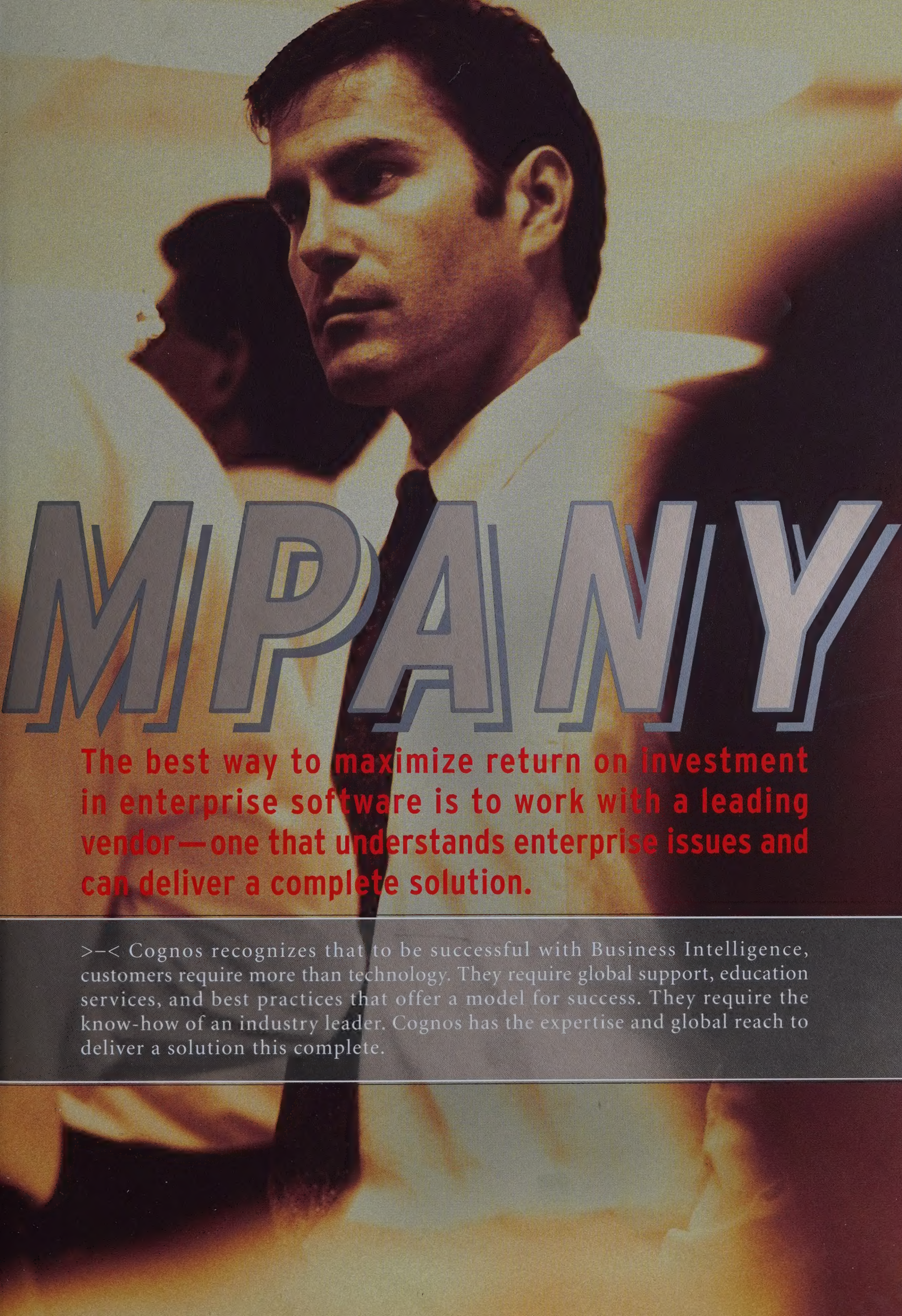


LUTION

Unless information is used to improve the business, it has little real value.

>–< Leveraging information at all levels is essential to managing a business today. When everyone is armed with the right information and understands the impact of different activities on the bottom line, they can all help improve the business. This is Business Intelligence.

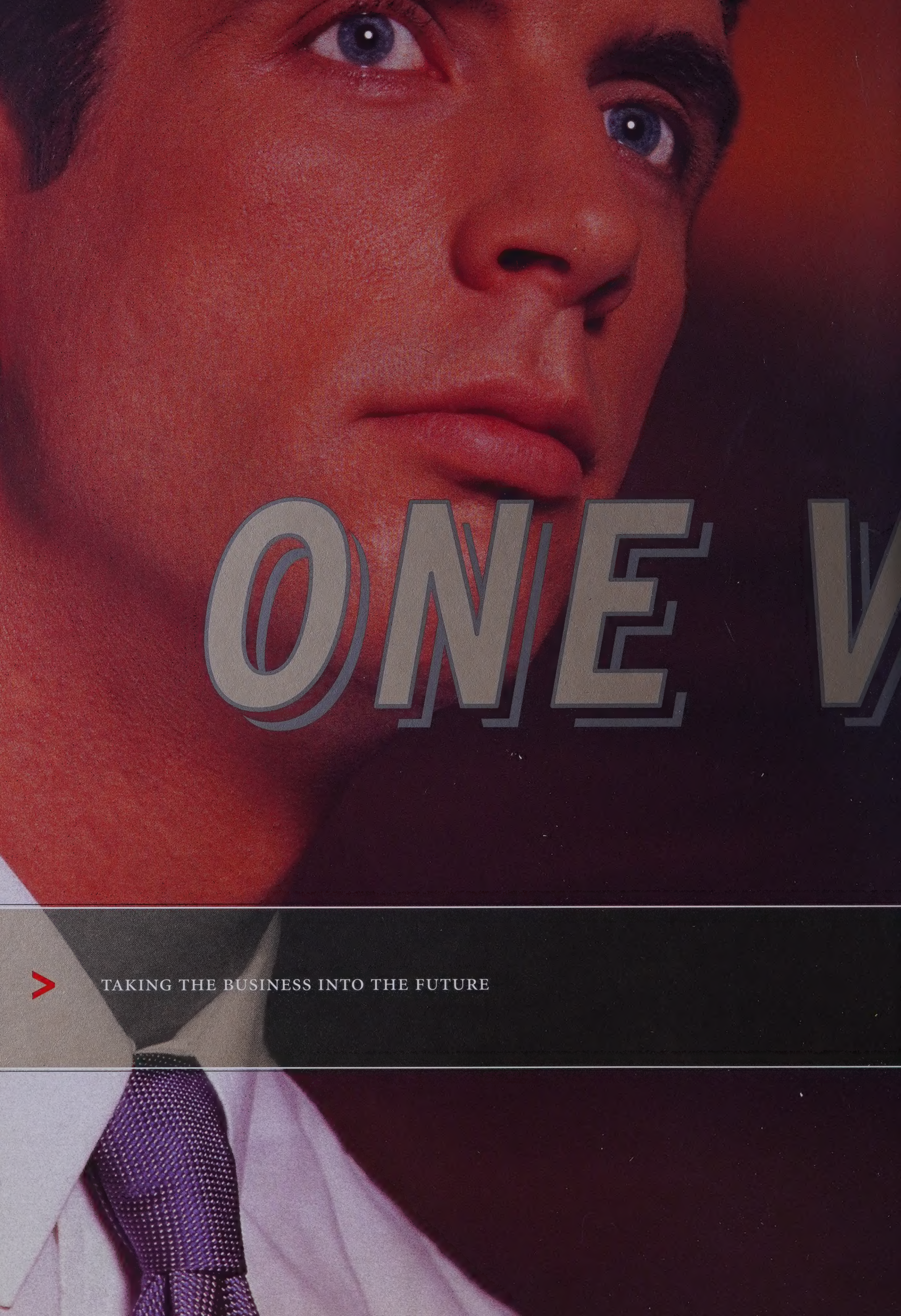

ONE CO
A SINGLE STRATEGY FOR SUCCESS



MPANY

The best way to maximize return on investment in enterprise software is to work with a leading vendor—one that understands enterprise issues and can deliver a complete solution.

>–< Cognos recognizes that to be successful with Business Intelligence, customers require more than technology. They require global support, education services, and best practices that offer a model for success. They require the know-how of an industry leader. Cognos has the expertise and global reach to deliver a solution this complete.



ONE V

> TAKING THE BUSINESS INTO THE FUTURE

ISION

Leadership is a reflection of visionary thinking, long-term strategy, and ability to execute.

>–< When we introduced our Business Intelligence products, we changed the way companies work with information. Now Web-enabled, our best-of-breed solutions can dramatically expand the impact of Business Intelligence within organizations. As we extend our reach into the enterprise market, Cognos Business Intelligence will facilitate better decision-making on a much larger scale.

> LETTER FROM THE CHIEF EXECUTIVE OFFICER

Ron Zambonini

PRESIDENT AND CHIEF EXECUTIVE OFFICER

FELLOW SHAREHOLDERS

Having met our goals over the course of fiscal 1999, Cognos is moving forward to address the opportunity presented by the enterprise market. I believe that success in this endeavor lies in the fundamental values that Cognos brings to every initiative: that Business Intelligence is first and foremost about making our customers successful. It's about working in partnership with our customers to deliver solutions that are right for them. It's about outstanding customer support, product excellence, and industry knowledge. These values have made Cognos the Business Intelligence leader.

Our success in fiscal 1999 is due to the tremendous effort that Cognos employees have put into making our customers successful. Their dedication to delivering value-added solutions that address real-world customer challenges—combined with superior product development, comprehensive customer education, and global support—demonstrates that Cognos people are truly the best in the industry. I extend to them my sincere thanks for their ongoing dedication to this company.

I would like to share with you the personal decision of one of our Board members. Steve Scotchmer, our Vice-Chairman, has decided that due to a number of other commitments he will not stand for re-election at our upcoming annual meeting. In his five years of service to your Board, Steve's efforts have been tireless in the areas of Board development, corporate governance, and human resource policies. In these and other areas of counsel, Steve has been an invaluable resource to me. We will miss his contributions.

I am very satisfied with this year's results. Our established Business Intelligence products continue to lead the market worldwide, with significant growth in North America and Europe, and in the Pacific Rim. As anticipated, the Web is allowing us to deliver the benefits of Business Intelligence on a much broader scale. By leveraging the accessible, intuitive, and low-cost architecture of the Web, our tools enable our customers to successfully deploy Business Intelligence throughout all levels of their organizations.

Sales of our Web-based products have contributed substantially to this year's growth, and are essentially changing the profile of our product revenue. PowerPlay® Web, Impromptu® Web Query, and Impromptu Web Reports set new revenue records, with sales at least double those of our nearest competitor. Revenues from our legacy products, PowerHouse® application development tools, have grown modestly this year—evidence of the supportive response to our commitment to this customer base.

Today, the Internet and Web-based technologies are having a profound impact on the way companies conduct business—not only in how people work with customers and suppliers,

but also in how they work with one another internally. Traditional business processes are becoming increasingly information-driven, and are supplying ever-growing amounts of data to staff at all levels in an organization. In response, many large- and medium-sized companies are seeking to provide all employees with the information—and the tools—that they need to make better decisions. As this trend leads Business Intelligence beyond departmental implementations and into the enterprise market, we believe that Business Intelligence will become an enterprise necessity. Cognos' existing global infrastructure and expertise puts us in an excellent position to take advantage of this opportunity, and deliver the products, services, training, global support, and know-how that will help our customers empower tens of thousands of users with Business Intelligence.

To extend our leadership into the enterprise market, we are combining our proven technology into a flexible, integrated Enterprise Business Intelligence product platform. This will not only allow us to make the full spectrum of Business Intelligence activities available to a larger community of end users, it will also provide single-point administration and data management for the Information Technology and system administration community.

We plan to further leverage this platform by delivering a series of integrated Cognos BI Applications™. These complete solutions let our customers build Business Intelligence-ready data marts that accelerate the time to result within any enterprise environment. Continued investments in third-party channels, professional services staff, and solution partnerships will also serve to enhance our position in the enterprise market.

In fiscal 2000, our goal is to continue to anticipate and respond to our customers' needs with the products, best practices, support, and expertise they require to be successful with our solutions. Our objective is to lead the Business Intelligence charge within the enterprise market and invest for this opportunity in order to achieve improved business performance.

R. Zambonini

Ron Zambonini

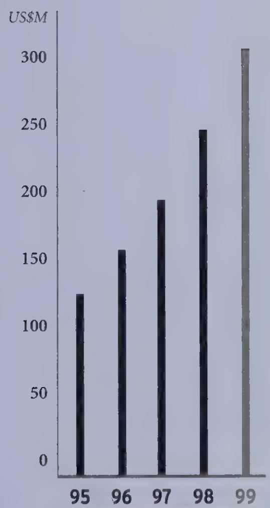
PRESIDENT AND CHIEF EXECUTIVE OFFICER

APRIL 1999

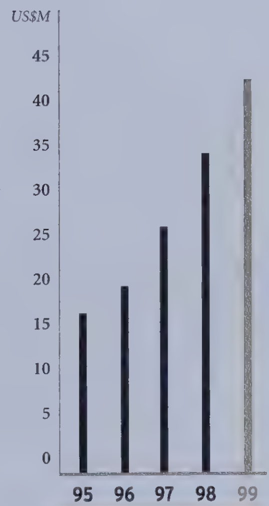
FINANCIAL HIGHLIGHTS

	1999	1998	1997	1996	1995
		YEARS ENDED THE LAST DAY OF FEBRUARY			
		(US$000s, EXCEPT PER SHARE AMOUNTS; U.S. GAAP)			
Revenue	**$301,125**	$244,834	$198,185	$152,186	$121,817
Gross research and development costs	**42,746**	33,997	26,003	19,715	16,697
Income before taxes	**75,368** [1]	61,759 [1]	45,814	23,526	11,569
Diluted net income per share [2]	**1.39** [1]	1.11 [1]	0.80	0.40	0.20
Working capital	**123,343**	112,846	103,727	66,149	38,376
Total assets	**289,129**	219,663	189,152	140,010	108,174
Total debt	**2,612**	2,457	2,655	2,744	2,823
Stockholders' equity	**162,614**	131,005	115,912	78,297	55,156

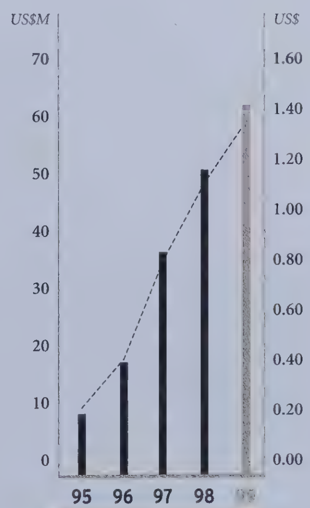
[1] Excludes acquired in-process technology expense of US$3.8M or $0.08 per share in fiscal 1999, and US$18.0M or $0.40 per share in fiscal 1998
[2] Reflects the three-for-one stock split in fiscal 1997



TOTAL REVENUE



GROSS R&D COSTS



NET INCOME AND DILUTED NET INCOME PER SHARE[1]

Net Income
Diluted EPS

[1] Excludes acquired in-process technology expense

› The Internet has sparked a compelling market opportunity for the use of Business Intelligence products and solutions.

OPPORTUNITY

This year's financial results reflect growth and opportunity that we believe will continue well into the next millennium. Overall revenue increased 23 percent to US$301.1 million, a result of significant growth on all fronts. In a year when many organizations weathered declines due to macro-economic conditions, Cognos grew worldwide—increasing revenues in North America by 22 percent, in Europe by 25 percent, and in Asia/Pacific by 23 percent. Our Business Intelligence products continued to set new records, with revenue increasing by 31 percent to US$230.9 million. Sales of our application development tools, aided by Year 2000-related demand, showed modest growth of 2 percent in contrast to the decline we have seen in recent years.

Fiscal 1999 was the year of the Web for Cognos. We entered into the year with Web-based Business Intelligence products that let our customers quickly arm their organizations with easy, broad-based access to information. With these products, everyone—from senior executives to production line workers to remote sales forces and branch offices across the globe—can access the information they need to make better decisions. The results for Cognos were gratifying: building on the record-breaking sales established with their initial release last year, fiscal 1999 sales of our Web-based products grew by over 200 percent, with total license revenue of US$41 million—at least double that of our nearest competitor.

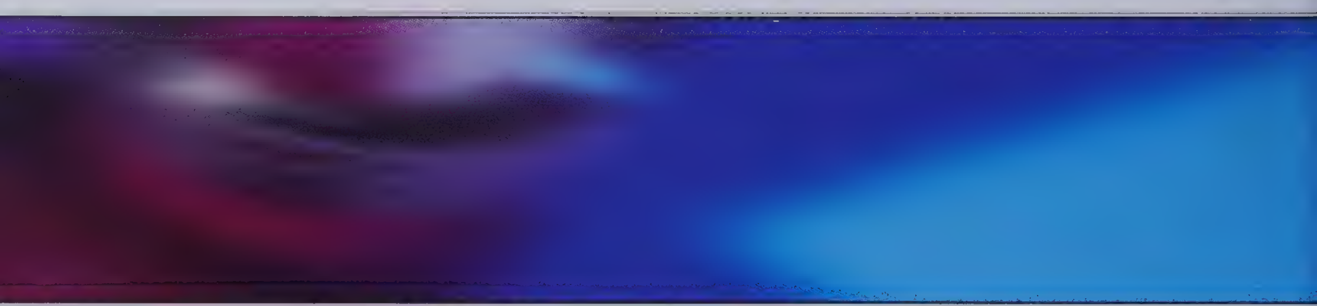
Our Web-based products achieved leadership in the Business Intelligence market because we developed them with an understanding of how the Web would impact the way our customers use information. We recognized that the Web would provide a low-cost, universal infrastructure for accessing and distributing information. We recognized that the Web would allow us to extend the reach of Business Intelligence to additional types of end users, and redefine the scope and impact of decision-making across the organization. We recognized that it would be easy for companies to give the majority of their employees—casual users—simple access to information and the ability to review reports via the Web. Today, we recognize that to make our customers successful, our solution needs to continue to evolve and deliver Business Intelligence value on an enterprise scale.

THE DOW CHEMICAL COMPANY

<< Cognos Business Intelligence has played a strategic role within Dow since 1993. It has been instrumental in shifting the focus of our enterprise reporting from traditional business metrics to profit-centric analysis, which ultimately creates greater value for our shareholders. In addition to productivity benefits—like getting information 70 percent faster than before—BI from Cognos has helped us reduce operating expenses and avoid significant costs in updating legacy systems. >>

D.E. Kepler
Vice President & CIO

> As we extend our reach into the enterprise market, we want Enterprise Business Intelligence from Cognos to ultimately transform the way companies run their business.



THE ENTERPRISE MARKET

The enterprise environment is distinct and complex. Decisions are made at all levels of an organization, and not everyone requires the same type of information—or the same type of tool—to achieve results. From "report consumers" who want a simple user interface, to "power users" who need the full range of Business Intelligence functionality to create reports or review business performance, everyone must be able to work with information in the way that best suits their requirements. This is becoming even more important in a world that is increasingly information-driven.

From analyzing and visualizing summary-level information to reviewing the details behind trends, from forecasting business performance to sharing information over the Internet with partners and suppliers, Cognos Business Intelligence products cover the spectrum of activities that define the decision-making process.

Besides the business functionality expected from Business Intelligence, enterprise environments demand a solution that lets Information Technology (IT) departments integrate data from disparate sources—like data warehouses, enterprise resource planning (ERP) systems, and legacy operational databases—and turn it into useable information that offers consistent measures across the entire organization. Such a solution must also be centrally controlled and administered, and must be able to deliver Business Intelligence to tens of thousands of Web and Windows® users from a common infrastructure.

In fiscal 1999, Cognos took important steps toward meeting these enterprise requirements with the release of two new products. Impromptu® Web Reports, released in November 1998, provides a single Web-based interface from which users can perform reporting activities that suit their individual

AVON PRODUCTS, INC.

<< Avon is investing significantly in the Web as an enterprise platform. Cognos is essential to our strategy because their Web-enabled Business Intelligence solution is allowing us to deliver more timely information to more people than ever before. Last year, Avon revenues grew by $250 million. We attribute this, in part, to the impact that Cognos BI has had on decision-making throughout all levels of our organization. Cognos is definitely helping us reap maximum return on our infrastructure investment. >>

Arthur Phidd
Manager, E-commerce and Web Technology

needs. PowerPlay® Enterprise Server, released in February 1999, is the only OLAP application server that supports Web, Windows, Microsoft® Excel, and mobile users from a single, centrally administered server. Both of these products are helping customers make the leap from departmental to enterprise Business Intelligence deployment.

Our primary mission is to make our customers successful.

COGNOS ENTERPRISE BUSINESS INTELLIGENCE

Building on the established strengths of our Business Intelligence tools, Cognos will help customers deploy Business Intelligence on an enterprise scale by delivering a complete product platform that addresses the needs of users and IT departments alike.

Our industry-leading tools will form the core of our Enterprise Business Intelligence platform and act as the engines that drive better decision-making across the organization. This solution will also provide access to all decision-ready information through a Web portal. Having a single consolidation point for accessing enterprise Business Intelligence and other sources of data will make it easy for users to tailor the way information is presented to them, and find the data they need in their day-to-day decision-making. At the same time, this enterprise solution will provide IT departments

with common security and administration, common data mart management, and common metadata management for all Cognos tools, both client/server and Web. As Cognos moves forward in providing Enterprise Business Intelligence, we will focus on delivering complete solutions. Through best practices that offer a proven model for success, through educational services and global support, through our industry-leading know-how, our strategy is to extend the reach of Business Intelligence in our customers' organizations as well as to increase our presence in the marketplace.

Investing for Enterprise Success

Throughout fiscal 1999, Cognos invested in areas that will further contribute to our customers' success, and established the groundwork that we believe will let us maximize our penetration of the enterprise market.

In December 1998, Cognos acquired the assets of Relational Matters and its DecisionStream™ software, which provides a simple, integrated approach to loading and managing data marts. With this software, customers can develop data marts—subject-matter-oriented stores of aggregate information—optimized to support the decision-making process. In February 1999, we acquired LEX2000 Inc., whose tools offer our customers best-of-breed financial reporting and budgeting.

We acquired Business Intelligence University in November 1998, and began offering this executive-MBA-style course on a worldwide basis. BI University™ lets attendees experience first-hand how Business Intelligence actually works within an organization. It also demonstrates the bottom-line benefits of coordinated decision-making across the entire enterprise. For Cognos, BI University is a unique demand-creation vehicle that we expect will assist in enterprise penetration and the promotion of our Business Intelligence best practices.

Another key investment area is the development of Cognos BI Applications™, solutions designed to help customers increase the return on their investment in ERP systems. In addition to reducing the time and costs involved in building data marts from ERP platforms, Cognos BI Applications will provide predefined, Web-based PowerPlay and Impromptu reports based on the best practices many of our innovative customers have successfully employed. This business content will enable enterprises to derive immediate Business Intelligence value from their operational systems.

Roche Diagnostics

<< The introduction of Cognos BI into our data warehousing environment has meant remarkable gains for Roche. We used to spend a week each month downloading SAP data for standard, static monthly reports. Cognos BI is saving us hundreds of hours in report creation and distribution alone—and the intelligence behind the Cognos solution goes far beyond reporting. Direct access to current, multidimensional data means that Roche representatives can explore and analyze trends to uncover and profit from new opportunities. >>

Chris Retting

Manager, Sales and Marketing Analysis, Roche Molecular Biochemicals

Our first BI Application, Sales Analysis for SAP® R/3®, was released in November 1998, and has already proven successful within a number of our large accounts. Throughout fiscal 2000, we plan to develop other integrated and customizable BI Applications—such as Finance, Inventory, and Procurement—that will work together to facilitate coordinated decision-making across an enterprise.

Overall, our investment in research and development totaled US$42.7 million for the fiscal year, representing 14 percent of revenue and an increase of 26 percent over the previous year. We now have a team of over 500 people dedicated to building winning products. We believe that this talent is a valuable competitive advantage in our industry.

We continue to develop partnerships with other industry leaders to ensure that our solutions can be deployed quickly and provide immediate value within our customers' technical environments. We also continue to grow our indirect sales channel around the world.

In February 1999 alone, Cognos announced strategic channel partnerships with 47 companies from many different countries. Our partnerships with leading resellers and systems integrators have been instrumental in helping us secure our market position, and will help us achieve greater penetration as we focus on expanding our presence in the enterprise market.

Deploying Cognos Solutions

With nearly 300 Cognos staff consultants and hundreds of Services Partners delivering educational services and on-site consulting around the world, Cognos Business Intelligence expertise is available to enterprise customers wherever they do business. We provide the full spectrum of professional services customers require to be successful with our solutions—from planning how best to deploy Business Intelligence; to designing, building, and implementing a solution; to offering flexible training courses. In fiscal 1999, our Services organization continued to contribute solidly to our business results, with revenues of US$49.4 million.

Dr Pepper / Seven Up, Inc. (A Division of Cadbury Schweppes plc)
<< Cognos BI gives us a flexible solution that delivers the right level of information to the right users. Everyone at D
Pepper/Seven Up, Inc. can rely on having the information they need at their fingertips, whether they're in a meetin
on an airplane, or across the desk from a customer. This is a scalable solution that will grow along with our organizati
as people, responsibilities, and the company change. >>

Don McKinney
Director of Corporate Case Sales

Supporting Enterprise Installations

The technical issues that international corporations face in implementing enterprise-wide systems are typically much broader and more complex than those experienced with a departmental implementation. Therefore, when a large enterprise contemplates purchasing software for worldwide deployment, global support is a key factor in choosing the vendor.

As our base of international customers has grown over the past several years, Cognos has taken a number of steps to ensure that we offer the level and quality of customer support that these large organizations require. In fiscal 1999, the number of Alliance Support customers increased by 70 percent, a good indication that customers consider this premium-level global service essential to deploying Business Intelligence on an enterprise scale.

Our long-term goal is to develop an integrated, customer-centric system capable of consistently handling customers' expectations anywhere in the world, and we are systematically assembling the technologies, people, and expertise that will enable us to achieve this goal.

Over the last year, Cognos continued to leverage its investments in Integrated Voice Response (IVR) technology, Computer Telephony Integration (CTI), and Web-based problem resolution. With these systems, customer calls for technical support are routed to the support specialist best qualified to assist them. In fiscal 1999, the Cognos Customer Support team received over 80,000 calls from Business Intelligence customers, and was able to resolve 37 percent of them in under an hour. Since the IVR and CTI systems were implemented in North America, the length of time that callers wait for service has been reduced by 50 percent. This has resulted in a corresponding increase in customer satisfaction. Plans are now in place to make this system available in Europe.

In addition to IVR and CTI technology, we are able to proactively assist customers with our self-service support Web site. This service is very popular with our customers; visits to the site have more than doubled over the fiscal year. With these and other innovations such as scheduling tools, customer survey systems, remote diagnostics tools, and tracking software, Cognos is leading the way in the delivery of consistent and outstanding customer support around the world, in different

Eastman Chemical Company

<< Cognos BI solutions and best practices are critical components of Eastman Chemical Company's enterprise information systems strategy. We chose Cognos over ten other vendors because of product integration, because of Cognos' vision—namely their focus on the Web as the key enterprise-enabling platform—and because of the responsiveness and expertise of their people. Cognos has been a true partner before, during, and after purchase. >>

Euell Goodman
Senior Systems Associate, Eastman Information Warehouse

languages, cultures, and time zones. Recognition of this fact was publicized in December 1998, when the Cognos Customer Support team was awarded the prestigious STAR (Software Technical Assistance Recognition) award for excellence in automated software support in North America. With this world-class support organization, Cognos is well positioned to support a higher volume of enterprise customers.

ENTERPRISE LEADERSHIP

Cognos' industry leadership cannot be viewed as simply a matter of market share. Leadership is a core value within our organization, and the collective know-how of our employees is of paramount importance to our enterprise customers. To maximize the value of this corporate asset, we are investing more in employee training at all levels.

Our Leadership Development Program is designed to ensure that current and future leaders have the skills and knowledge to sustain our growth and profitability and lead the charge into new areas of our market. Over the past year, 90 senior people have participated in this program. Our Core Management Skills Program provides formal training and skill development to front-line managers. Two hundred and fifty managers participated in this program in fiscal 1999—doubling enrollment compared to the previous year. Our commitment to ongoing technical training keeps staff current with the latest tools and ensures leadership in technical expertise, as in other areas of our organization. In financial terms, we have more than doubled our investment in employee training. This comprehensive training policy helps us attract and retain the very best talent, which in turn allows us to offer premium value to our customers.

It is this commitment to excellence that has made Cognos the enterprise-ready Business Intelligence leader that we are today. Over the past several years, we have systematically prepared the foundations on which to build long-term relationships with enterprise customers. We believe that our proven Business Intelligence expertise makes the promise of Enterprise Business Intelligence a reality for our customers. We also believe that our employees comprise a global team with the depth of experience needed to advise enterprise customers and make them successful with our solution.

Symix Systems Inc.

<< Because of our strategic partnership with Cognos, our customers enjoy more than increased operational efficiency from our enterprise resource planning systems. Enhanced with Business Intelligence, our systems let customers analyze critical data to shorten time-to-market, reduce operating costs, and become more productive and profitable. In short, Business Intelligence from Cognos helps us offer our customers greater and faster return on their ERP investment. Symix has doubled in size in the past three years—thanks in part to our successful partnership with Cognos. >>

Cathy DeRosa
Vice President, Corporate Marketing

Our vision—aimed at keeping Cognos at the forefront of the Business Intelligence market—is to ensure that we continue to make our customers successful, provide a satisfying and challenging work environment for our employees, and build value for our shareholders.

> FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(IN UNITED STATES DOLLARS, UNLESS OTHERWISE INDICATED, AND IN ACCORDANCE WITH U.S. GAAP)

The following discussion should be read in conjunction with the audited consolidated financial statements and notes included in this Annual Report. The Corporation prepares and files its consolidated financial statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in United States (U.S.) dollars and in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The consolidated financial statements and MD&A in accordance with Canadian GAAP, in U.S. dollars, are made available to all shareholders and filed with various regulatory authorities.

OVERVIEW

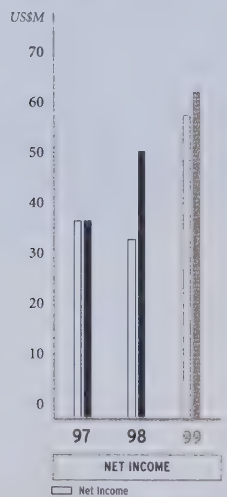
The Corporation develops, markets, and supports complementary lines of software tools that are designed to satisfy enterprise-wide business-critical needs. The Corporation's business intelligence products are designed to give individual users the ability to independently access, explore, analyze, and report corporate data. The Corporation's client/server application development tools are designed to increase the productivity of system analysts and developers. Cognos products are distributed both directly and through resellers worldwide.

Revenue is derived from the licensing of software and the provision of related services, which include product support and education, consulting, and other services. The Corporation generally licenses software and provides services subject to terms and conditions consistent with industry standards. Customers may elect to contract with the Corporation for product support, which includes product and documentation enhancements, as well as telephone support, by paying either an annual fee or fees based on usage of support services.

The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies.

RESULTS OF OPERATIONS

Total revenue for the year ended February 28, 1999 (fiscal 1999) was $301.1 million, which was 23% more than the fiscal 1998 revenue of $244.8 million which, in turn, was 24% more than the fiscal 1997 revenue of $198.2 million. Net income for fiscal 1999 was $58.4 million and diluted net income per share was $1.31, compared to fiscal 1998 net income of $32.6 million and diluted net income per share of $0.71, and net income of $36.8 million and diluted net income per share of $0.80 for fiscal 1997.



The results for fiscal 1999 include the write-off of $3.8 million of acquired in-process technology as a result of the acquisitions of Relational Matters and LEX2000 Inc., both of which occurred in the last fiscal quarter of the year. The results for fiscal 1998 include the write-off of $18.0 million of acquired in-process technology as a result of the acquisitions of Right Information Systems Limited and Interweave Software, Inc. during the year.

Excluding the effect of these write-offs, net income and diluted net income per share for fiscal 1999 would have been $61.8 million and $1.39, respectively, and net income and diluted net income per share for fiscal 1998 would have been $50.6 million and $1.11, respectively.

Basic net income per share was $1.34, $0.74, and $0.85 in fiscal 1999, 1998, and 1997, respectively. Excluding the effect of the write-offs in fiscal 1999 and fiscal 1998, basic net income per share would have been $1.41 and $1.15, respectively.

The following table sets out, for each fiscal year indicated, the percentage that each income and expense item bears to revenue, and the percentage change in the dollar amount of each item as compared to the prior fiscal year.

	PERCENTAGE OF REVENUE			PERCENTAGE CHANGE FROM FISCAL	
	1999	1998	1997	1998 to 1999	1997 to 1998
Revenue	**100.0%**	100.0%	100.0%	23.0%	23.5%
Operating expenses					
Cost of product license	**1.9**	1.5	1.7	49.9	17.2
Cost of product support	**3.7**	4.0	4.9	15.2	0.6
Selling, general, and administrative	**57.3**	57.5	57.8	22.4	22.9
Research and development	**14.0**	13.7	14.6	26.1	15.8
Acquired in-process technology	**1.3**	7.4	–	(78.9)	*
Total operating expenses	**78.2**	84.1	79.0	14.3	31.6
Operating income	**21.8**	15.9	21.0	68.8	(6.8)
Interest expense	**(0.2)**	(0.2)	(0.2)	9.6	12.7
Interest income	**2.2**	2.2	2.3	20.4	18.0
Income before taxes	**23.8**	17.9	23.1	63.6	(4.5)
Income tax provision	**4.4**	4.6	4.5	18.1	23.2
Net income	**19.4%**	13.3%	18.6%	79.0%	(11.3)%

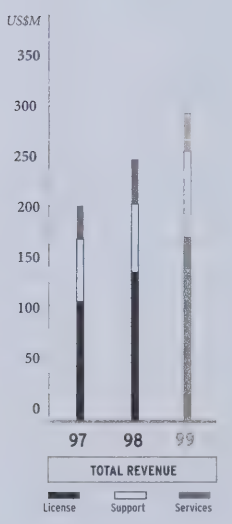
** not meaningful*

The following table sets out, for each fiscal year indicated, the percentage that specific items bear to revenue, and the percentage change in the dollar amount of each item as compared to the prior fiscal year, when the effect of the write-offs of acquired in-process technology is excluded.

	PERCENTAGE OF REVENUE			PERCENTAGE CHANGE FROM FISCAL	
	1999	1998	1997	1998 to 1999	1997 to 1998
Revenue	**100.0%**	100.0%	100.0%	23.0%	23.5%
Total operating expenses	**76.9**	76.8	79.0	23.3	20.1
Operating income	**23.1**	23.2	21.0	22.1	36.4
Net income	**20.5%**	20.7%	18.6%	22.0%	37.7%

Revenue

The Corporation's total revenue (consisting of product license, product support, and services revenue) was $301.1 million in fiscal 1999, compared to $244.8 million in fiscal 1998 and $198.2 million in fiscal 1997. The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies. The effect of foreign exchange rate fluctuations decreased the overall revenue growth by one percentage point in fiscal 1999 from fiscal 1998 and by three percentage points in fiscal 1998 from fiscal 1997.

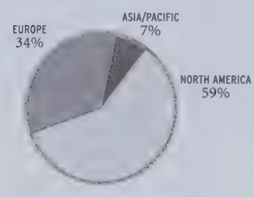


TOTAL REVENUE

The Corporation's growth in total revenue was derived primarily from the increase in revenue from the Corporation's business intelligence products, principally both client/server and Web versions of PowerPlay® and Impromptu®. Total revenue for all business intelligence products was $230.9 million, $176.2 million, and $122.5 million in fiscal 1999, 1998, and 1997, respectively, which resulted in year-over-year increases of 31% and 44%, respectively. Total revenue from the Corporation's business intelligence products represented 77%, 72%, and 62% of total revenue in fiscal 1999, 1998, and 1997, respectively. As described in the following section on Product License Revenue, the Corporation believes that its business intelligence products address the current market need for distributing corporate information to the end user's desktop in an environment of client/server networks and corporate intranets.

Total revenue from the Corporation's application development tools, PowerHouse® and Axiant®, was $70.2 million in fiscal 1999, compared to $68.6 million in fiscal 1998, and $75.7 million in fiscal 1997, which resulted in year-over-year changes of 2% and (9%), respectively. While the Corporation experienced an increase in total revenue from these products in the current fiscal year, as described in the following section on Product License Revenue, the Corporation believes that, in the long term, revenues from these products will continue to decline consistent with prior years.

The growth in total revenue from the three revenue categories in fiscal 1999 from fiscal 1998 was as follows: a 25% increase in product license revenue, a 28% increase in product support revenue, and a 9% increase in services revenue. This compares to an increase for the same categories for fiscal 1998 from fiscal 1997 as follows: 25%, 14%, and 37%, respectively.

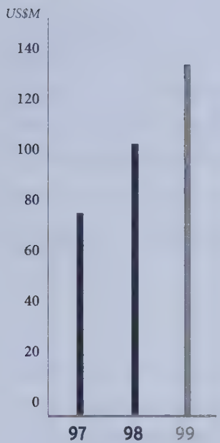


FISCAL 1999 TOTAL REVENUE BY GEOGRAPHY

The Corporation's operations are divided into three main geographic regions: (1) North America (includes Latin America), (2) Europe (consists of the U.K. and Continental Europe), and (3) Asia/Pacific (consists of Australia and countries in the Far East). In fiscal 1999, the percentage of total revenue from North America, Europe, and Asia/Pacific was 59%, 34%, and 7%, respectively, compared to 60%, 33%, and 7%, respectively, in fiscal 1998, and 57%, 37%, and 6%, respectively, in fiscal 1997. In fiscal 1999, total revenue from North America, Europe, and Asia/Pacific increased from fiscal 1998 by 22%, 25%, and 23%, respectively, compared to increases of 29%, 12%, and 43%, respectively, in fiscal 1998 from fiscal 1997. The increase for all regions in both periods was attributable to the increase in revenue from the business intelligence products. The larger growth in fiscal 1999 compared to the growth in fiscal 1998 in Europe was partially the result of increased sales activity in Germany and France. The current year's results in the Asia/Pacific region have been influenced by the general economic conditions in that area. (See Note 12 of the Notes to the Consolidated Financial Statements.)

Product License Revenue

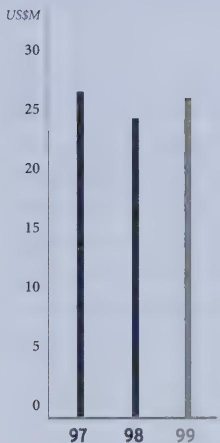
Total product license revenue was $158.4 million, $126.8 million, and $101.6 million in fiscal 1999, 1998, and 1997, respectively, and accounted for 53%, 52%, and 51% of the Corporation's revenue for the respective time periods.



BUSINESS INTELLIGENCE
Product License Revenue

The increase in all periods occurred predominantly as a result of the performance of the Corporation's business intelligence products. Product license revenue from these products was $131.9 million, $102.3 million, and $74.7 million in fiscal 1999, 1998, and 1997, respectively. The Corporation derived approximately 83% of its product license revenue in fiscal 1999 from these products, compared to 81% in fiscal 1998, and 74% in fiscal 1997.

The Corporation believes that its business intelligence products address the current market need for distributing corporate information to the end user's desktop in an environment of client/server networks and corporate intranets. During the last half of the prior fiscal year (fiscal 1998), the Corporation began to address the emerging market for Web or intranet-based products with the release of PowerPlay Server Web Edition, Impromptu Web Query, and DataMerchant™ and, in the current fiscal year, Impromptu Web Reports. While the Corporation believes that there is a market opportunity for Web-based decision support products, there can be no assurance of the rate or extent of growth of this market, or that the Corporation will be successful in continuing to develop products that will effectively address this market.



APPLICATION DEVELOPMENT
Product License Revenue

Product license revenue from the Corporation's application development tools, PowerHouse and Axiant, was $26.5 million, $24.5 million, and $26.9 million in fiscal 1999, 1998, and 1997, respectively. Over the past several fiscal years, the Corporation has been experiencing a decline in product license revenue in this market which is consistent, in the Corporation's view, with the market trend away from proprietary systems and host-based computing toward industry-standard systems and client/server technology, and packaged application products. The Corporation believes the increase in the current fiscal year was partially the result of expanded use of PowerHouse applications or upgrades to customer computers, and testing of legacy systems to ensure Year 2000 compliance. The Corporation believes that the maximum revenue potential from the activity around Year 2000 compliance occurred during fiscal 1999 and expects that, in the long term, the trend of decreasing product license revenue from these products will continue.

The Corporation's sales and marketing strategy includes multi-tiered channels ranging from a direct sales force to various forms of third-party distributors, resellers, and original equipment manufacturers. In fiscal 1999, the Corporation increased product license revenue derived from third-party channels to $49.2 million from $39.6 million in fiscal 1998, and from $33.8 million in fiscal 1997. The majority of the increase in product license revenue derived from third parties in fiscal 1999 from fiscal 1998 was attributable to the activity in North America. The increase in product license revenue derived from third parties in fiscal 1998 from fiscal 1997 was mainly attributable to an increase in activity in North America and Asia/Pacific.

Total product license revenue from third-party channels represented 31% of total product license revenue in both fiscal 1999 and 1998, and 33% in fiscal 1997. The decline in fiscal 1998 in product license revenue derived from third-party channels as a percentage of total product license revenue was the result of a relatively larger increase in direct sales.

Within the Corporation's business intelligence market, product license revenue from third-party channels was $42.3 million in fiscal 1999, compared to $33.0 million in fiscal 1998, and $24.5 million in fiscal 1997. Product license revenue from third-party channels represented 32% of its product license revenue in fiscal 1999 and 1998, compared to 33% in fiscal 1997.

The Corporation expects to continue to enhance its combined sales and marketing strategies to further develop the potential within the business intelligence products market. The Corporation expects to continue to utilize a multi-tiered channel strategy, as outlined above. With respect to the marketing strategy, the Corporation intends to continue to form alliances with system integrators, the larger accounting and consulting firms, packaged application providers, and various other strategic partners. In addition, the Corporation plans to continue to utilize marketing and promotional programs to generate awareness of business intelligence and interest in the Corporation's products.

There can be no assurance that increases in total product license revenue will continue to occur, or occur to the same extent to which they have historically occurred.

Product Support Revenue

Product support revenue was $93.3 million, $72.8 million, and $63.7 million in fiscal 1999, 1998, and 1997, respectively. Product support revenue accounted for 31%, 30%, and 32% of the Corporation's total revenue for the same time periods. The increase in the dollar amounts was the result of the expansion of the Corporation's customer base, as well as the renewal of support contracts. The rate of growth in product support revenue associated with the expansion of the Corporation's customer base has exceeded the rate of non-renewals of support contracts. The decline in product support revenue as a percentage of total revenue in fiscal 1998 was the result of relatively larger increases in services revenue and, to a lesser extent, in license revenue.

Total product support revenue from the business intelligence products was $52.0 million, $31.9 million, and $19.6 million in fiscal 1999, 1998, and 1997, respectively and comprised 56%, 44%, and 31% of the total product support revenue in fiscal 1999, 1998, and 1997, respectively. In fiscal 1999, total product support revenue from the business intelligence products increased by 63% from fiscal 1998, and total product support revenue from the application development tools increased by 1% over the same period. In fiscal 1998, total product support revenue from the business intelligence products increased by 63% from fiscal 1997, whereas total product support revenue from the application development tools decreased by 7% over the same period. Consistent with the discussion in product license revenue, the Corporation believes that, despite the product support revenue growth from the application development tools in the current fiscal year, in the long term, the trend of decreasing revenue from these products will continue.

There can be no assurance that increases in total product support revenue will continue to occur, or occur to the same extent to which they have historically occurred.

Services Revenue

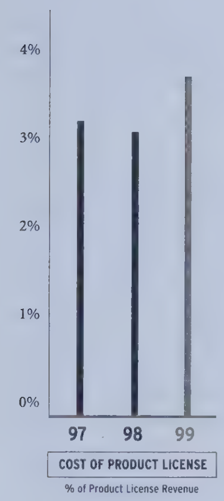
Revenue from education, consulting, and other services was $49.4 million, $45.2 million, and $32.9 million in fiscal 1999, 1998, and 1997, respectively. Services revenue accounted for 16%, 18%, and 17% of the Corporation's total revenue for the same time periods. The decline in fiscal 1999 services revenue as a percentage of total revenue was the result of relatively larger increases in both product support and product license revenue. In addition, the Corporation believes that the shift it has experienced toward Web-based products has had associated with it a reduced requirement from customers for end-user education and certain other services. In fiscal 1999, the Corporation realized a higher percentage of its product license revenue from Web-based products, which resulted in a relatively slower rate of growth in services revenue.

The increase in services revenue was predominantly the result of an increase in consulting and education revenue associated with the business intelligence products, consistent with the trend in product license revenue in this market. Services revenue associated with the business intelligence products contributed approximately 95%, 93%, and 86% to this revenue category in fiscal 1999, 1998, and 1997, respectively.

There can be no assurance that increases in total services revenue will continue to occur, or occur to the same extent to which they have historically occurred.

Cost of Product License

The cost of product license consists primarily of royalties for technology licensed from third parties and the costs of materials and distribution related to licensed software.



Product license costs in fiscal 1999 were $5.7 million compared to $3.8 million in fiscal 1998, and $3.3 million in fiscal 1997. Product license costs represented 4% of product license revenue for fiscal 1999, compared to 3% of product license revenue for fiscal 1998 and 1997.

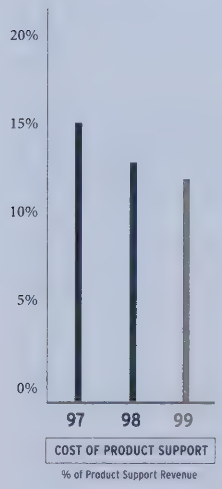
The increase in fiscal 1999 from fiscal 1998 was predominantly the result of a relatively larger increase in royalties; manufacturing and distribution costs associated with product offerings remained constant between the two years. The increase in fiscal 1998 from fiscal 1997 was primarily the result of an increase in the manufacturing and distribution costs associated with the increase in new product offerings during the year and, to a lesser extent, an increase in royalties.

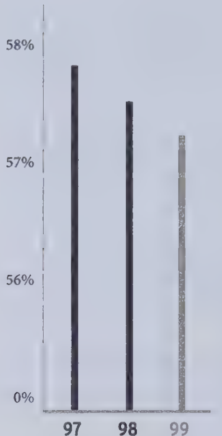
Cost of Product Support

The cost of product support includes the costs associated with resolving customer telephone inquiries and other telesupport activities, royalties in respect of technological support received from third parties, and the cost of materials delivered in connection with enhancement releases.

The cost of product support was $11.2 million, $9.7 million, and $9.6 million in fiscal 1999, 1998, and 1997, respectively. These costs represented 12%, 13%, and 15% of product support revenue for fiscal 1999, 1998, and 1997, respectively.

The increase in fiscal 1999 from fiscal 1998 was primarily associated with increases in telesupport costs to support customers, and to a lesser extent, increases in enhancement release costs and royalties. The increase in fiscal 1998 from fiscal 1997 was predominantly the result of increases in telesupport costs to support customers, and royalties, which were partially offset by decreases in enhancement release costs.





SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

% of Total Revenue

Selling, General, and Administrative

Selling, general, and administrative expenses were $172.5 million, $140.9 million, and $114.6 million in fiscal 1999, 1998, and 1997, respectively. These costs were 57% of revenue in fiscal 1999 compared to 58% in fiscal 1998 and 1997.

The increase in the selling, general, and administrative expenses in both fiscal periods was predominantly the result of increased staffing and related compensation expenses and, to a lesser extent, subcontracting and marketing costs. Certain infrastructure costs also increased in fiscal 1998. The average number of employees within this area grew by approximately 15% in both fiscal 1999 and 1998. The costs per employee increased 6% in fiscal 1999, compared to 7% in fiscal 1998.

Foreign exchange rate fluctuations reduced the overall percentage increase in fiscal 1999 over 1998 by approximately three percentage points, whereas they reduced the overall percentage increase in fiscal 1998 over 1997 by approximately four percentage points.

Research and Development

The following table sets out the components of the Corporation's research and development, as well as the percentages of revenue for the periods indicated.

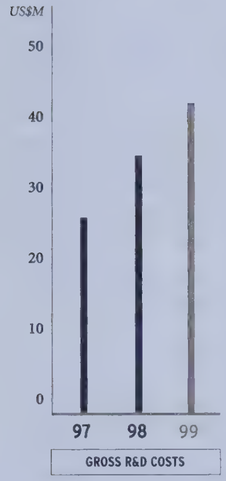
	1999 ($000s)	1998 ($000s)	1997 ($000s)
Gross research and development costs	**$42,746**	$33,997	$26,003
Government allowances	**(527)**	(897)	(733)
Amortization of previously capitalized amounts	**55**	430	3,681
Research and development	**$42,274**	$33,530	$28,951
Percentage of total revenue			
Gross research and development	**14%**	14%	13%
Research and development	**14%**	14%	15%

Gross research and development costs have continued to increase, in dollar terms, over the last two fiscal years but have remained relatively constant as a percentage of total revenue. The growth in both years was predominantly the result of increases associated with higher staffing levels in this area. Fiscal 1998 also included an increase in other costs associated with the development of the Corporation's product lines to meet various market requirements. The increase in the average number of employees in this area was 27% in fiscal 1999 from fiscal 1998, and was 23% in fiscal 1998 from fiscal 1997. Foreign exchange rate fluctuations reduced the overall increase in fiscal 1999 and 1998 by approximately eight and three percentage points, respectively.

Software development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs are amortized over a period not exceeding 36 months. Costs were not deferred in any of fiscal 1999, 1998, or 1997 because either no projects met the criteria for deferral or the

period between (i) achieving technological feasibility and (ii) the general availability of the product was short, and the associated costs were immaterial.

As indicated in the preceding discussion on Revenue, the Corporation believes there is a business opportunity for distributing corporate information to the end user's desktop utilizing the Internet and corporate intranets. During fiscal 1998, the Corporation began to address this emerging market with the release of three Web-based products: PowerPlay Server Web Edition (PowerPlay Web), Impromptu Web Query (IWQ), and DataMerchant. In fiscal 1999, the Corporation released Impromptu Web Reports, a new Web-based reporting product that supplements the Web-based products mentioned above, and also released new versions of PowerPlay Web and IWQ.



Also during fiscal 1999, the Corporation released Cognos Accelerator™ for SAP®, which allows users of SAP R/3® databases to extract critical application data and stage that data for access by the Corporation's own business intelligence products. The Corporation also released a new client/server version of PowerPlay, and NovaView™, an Online Analytical Processing (OLAP) client designed specifically for use with Microsoft's SQL Server 7.0. NovaView Administrator, a security enhancement and multi-user administration tool, was also released. The Corporation continued development of a single user interface, or portal, to support access to all Cognos business intelligence products; Cognos Visualizer, a graphical product that enhances understanding of user-selected data; and Cognos Architect, a metadata modeling and management tool that will provide a single point of administration for business models that can be shared between all the Corporation's reporting and analysis products.

To support the existing PowerHouse customer base, the Corporation announced the development of PowerHouse Web which the Corporation believes will provide additional deployment options and protection to the investments customers continue to make in the Corporation's application development tools. The Corporation also continued to invest in Axiant during the year.

In fiscal 2000, the Corporation expects to continue its investments in research and development activities for its business intelligence products, especially the development of products that will support the Corporation's strategy to deliver to the enterprise. These enterprise solutions will include the development of tools to facilitate the creation of, and reporting from, datamarts and Web-enabled versions of its business intelligence products. In addition, the Corporation will continue development on Axiant; selected updates to PowerHouse, including a Web extension to PowerHouse; and on the new financial reporting software products acquired in the fiscal 1999 purchase of LEX2000 Inc. (See Note 5 of the Notes to the Consolidated Financial Statements.)

Acquired In-Process Technology

Fiscal 1999

During the fourth quarter of fiscal 1999, the Corporation completed the acquisition of Relational Matters and LEX2000 Inc.

The Corporation acquired substantially all the assets of Relational Matters including DecisionStream™ software. DecisionStream aggregates and integrates large volumes of transaction data with multidimensional data structures. Relational Matters will receive approximately $7,550,000 over three years and 125,490 shares of the Corporation's common stock valued at $1,823,000 over the same time period. The shares, all of which were issued, are being held in escrow by the Corporation and will be released on the second (40%) and third (60%) anniversaries of the closing of the

transaction. For valuation purposes, the deferred payments and shares were appropriately discounted. An independent appraisal valued the in-process research and development at $2,400,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $2,400,000 ($0.05 per share on a diluted basis) in the fourth quarter ended February 28, 1999, to write off the acquired in-process technology.

The Corporation acquired LEX2000 Inc., a developer of financial data mart and reporting software, for a combination of cash and the Corporation's common stock. The shareholders of LEX2000 Inc. will receive approximately $7,444,000 over three years and 126,059 shares of the Corporation's common stock valued at $1,940,000 over the same time period. Approximately 7,100 shares were issued at closing; the remainder, all of which were issued, are being held in escrow by the Corporation and will be released equally on the second (50%) and third (50%) anniversaries of the closing of the transaction. For valuation purposes, the deferred payments and shares were appropriately discounted. An independent appraisal valued the in-process research and development at $1,400,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $1,400,000 ($0.03 per share on a diluted basis) in the fourth quarter ended February 28, 1999, to write off the acquired in-process technology.

Fiscal 1998

During the first quarter ended May 31, 1997, the Corporation completed the acquisition of Right Information Systems Limited (RIS) of London, England. RIS was the provider of 4Thought™, business modeling and forecasting software. The shareholders of RIS received $4.5 million and 90,000 shares of the Corporation's common stock, valued at $1.6 million. These shares are being held in escrow by the Corporation until April 9, 2000. An independent appraisal valued the in-process research and development at $5.0 million. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $5.0 million ($0.11 per share on a diluted basis) in the first quarter ended May 31, 1997, to write off the acquired in-process technology.

During the third quarter ended November 30, 1997, the Corporation completed the acquisition of Interweave Software, Inc. (Interweave) of Santa Clara, California, U.S.A. Interweave was the developer and marketer of the Interweave software product line, which allows information technology organizations to deploy intranet- and extranet-based business intelligence applications more broadly within and across enterprises. The acquisition agreement called for the Corporation to pay approximately $12.4 million cash to the shareholders of Interweave, most of which was paid upon completion of the acquisition. An independent appraisal valued the in-process research and development at $13.0 million. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $13.0 million ($0.28 per share on a diluted basis) in the third quarter ended November 30, 1997, to write off the acquired in-process technology.

The acquisitions in both fiscal years have been accounted for using the purchase method. The results of operations of all acquired companies prior to their respective dates of acquisition were not material. The results of all acquired companies have been combined with those of the Corporation since their respective dates of acquisition. (See Note 5 of the Notes to the Consolidated Financial Statements.)

Interest Income and Expense

Interest income is earned on the Corporation's cash, cash equivalents, and short-term investments, and interest expense relates primarily to the interest on the Corporation's mortgage and capital leases.

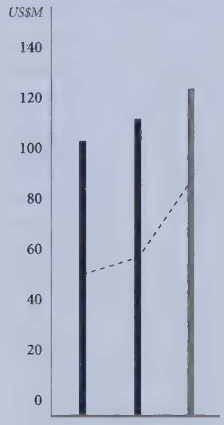
Net interest income was $5.9 million, $4.9 million, and $4.1 million in fiscal 1999, 1998, and 1997, respectively. The increase in fiscal 1999 was primarily attributable to higher average effective interest rates, and to a lesser extent, a larger average portfolio, which was partially offset by the impact of adverse exchange rate fluctuations. The increase in fiscal 1998 was primarily attributable to a larger average portfolio, which was partially offset by a decline in the average effective interest rates and the impact of adverse exchange rate fluctuations.

Tax Expense

The Corporation's tax rate is affected by the relative profitability of its operations in various geographic regions. In fiscal 1999 the Corporation recorded an income tax provision of $13.1 million on $75.4 million of pre-tax income, excluding the $3.8 million write-off of acquired in-process technology, some of which is not tax deductible. This tax expense represents an effective income tax rate of 18% for the year, excluding the aforementioned non-deductible items. In fiscal 1998 the Corporation recorded an income tax provision of $11.1 million on $61.8 million of pre-tax income, excluding the $18.0 million write-off of acquired in-process technology, which was not tax deductible. This tax expense represented an effective income tax rate of 18% for the year, compared to 20% in fiscal 1997. (See Note 9 of the Notes to the Consolidated Financial Statements.)

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 1999, the Corporation held $149.7 million in cash, cash equivalents, and short-term investments, an increase of $23.4 million from February 28, 1998. In addition, the Corporation has arranged an unsecured credit facility that includes an operating line and foreign exchange conversion facilities. The operating line permits the Corporation to borrow funds or issue letters of credit or guarantee up to Cdn$15.0 (US$10.0) million, subject to certain covenants. As of February 28, 1999, there were no direct borrowings under this operating line. As discussed further below, the Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of approximately Cdn$130.0 (US$86.2) million outstanding at any one time.



WORKING CAPITAL AND CASH FLOW FROM OPERATIONS

As of February 28, 1999, the Corporation had a total of $8.4 million of long-term liabilities (including the current portion of long-term debt), consisting of a mortgage, other long-term liabilities, and certain capital leases. As of February 28, 1999, working capital was $123.3 million, an increase of $10.5 million from February 28, 1998, primarily because of higher levels of short-term investments, accounts receivable, and prepaids, which were partially offset by increases in current liabilities. There was an increase in working capital in fiscal 1999 even though the Corporation used $43.3 million for acquisitions and the repurchase of its shares during the year.

Cash provided by operating activities (after changes in non-cash working capital items) for fiscal 1999 was $84.6 million, an increase of $28.7 million compared to the prior fiscal year. This improvement was due primarily to the year-over-year increase in net income, adjusted for the two acquisitions in the fiscal year, as well as a net decrease in non-cash working capital during the current fiscal year, as compared to a net increase in non-cash working capital during the prior fiscal year.

Cash used in investing activities was $49.5 million for fiscal 1999, a slight increase in spending compared to the prior fiscal year. The majority of the increase was a result of the additions to fixed assets. During the year, the Corporation purchased the remaining interest in its head office building in Ottawa, Canada for approximately $4.8 million. In fiscal 1999, the Corporation spent $19.2 million related to the activity in short-term investments compared to $19.8 million (both net of maturities) in fiscal 1998. In addition, the Corporation spent $9.2 million in fiscal 1999 on acquisitions, compared to $16.9 million in fiscal 1998. (See Note 5 of the Notes to the Consolidated Financial Statements.)

Cash used in financing activities was $28.7 million for fiscal 1999, compared to a $17.4 million in fiscal 1998. The Corporation's financing activities for both fiscal years were centered around the repurchase of its own shares in the open market. During fiscal 1999, the Corporation repurchased 1,503,000 shares at a cost of $34.1 million, compared to 1,270,000 shares repurchased at a cost of $29.1 million in fiscal 1998. Offsetting this activity, the Corporation issued 573,000 common shares for consideration of $5.0 million during fiscal 1999, compared to 1,695,000 shares for consideration of $9.3 million in fiscal 1998. The issuance of shares in both periods was pursuant to the Corporation's stock purchase plan and the exercise of stock options by employees, officers, and directors. In fiscal 1999, the Corporation also issued 251,000 shares for a value of $3.8 million, in conjunction with the acquisition of Relational Matters and LEX2000 Inc., and in fiscal 1998 issued 90,000 shares for a value of $1.6 million, in conjunction with the acquisition of RIS. (See Note 5 of the Notes to the Consolidated Financial Statements.)

The share repurchases made in the past two fiscal years were part of distinct open market share repurchase programs through the Nasdaq National Market. The share repurchases made in fiscal 1999 were part of two open market share repurchase programs. The program adopted in October 1997 expired on October 6, 1998. Under this program the Corporation repurchased the maximum permitted under the plan; all repurchased shares were cancelled. In October 1998, the Corporation adopted a new program that will enable it to purchase up to 2,100,000 common shares (not more than 5% of those issued and outstanding) between October 9, 1998 and October 8, 1999. This program does not commit the Corporation to make any share repurchases. Purchases will be made on The Nasdaq Stock Market at prevailing open market prices and paid out of general corporate funds. All repurchased shares will be cancelled. A copy of the *Notice of Intention to Make an Issuer Bid* is available from the Corporate Secretary. (See Note 10 of the Notes to the Consolidated Financial Statements.)

The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge portions of the net investment in its various subsidiaries. The Corporation enters into these foreign exchange forward contracts with major Canadian chartered banks, and therefore does not anticipate non-performance by these counterparties. The amount of the exposure on account of any non-performance is restricted to the unrealized gains in such contracts. As of February 28, 1999, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 25, 1999 to May 27, 1999, to exchange various foreign currencies in the amount of $3.9 million.

The Corporation has never declared or paid any cash dividends on its common shares. The Corporation's current policy is to retain its earnings to finance expansion and to develop, license, and acquire new software products, and to otherwise reinvest in the Corporation.

The Corporation anticipates that through fiscal 2000 its operations will be financed by current cash balances and funds from operations. If the Corporation were to require funds in excess of its current cash position to finance its longer-term operations, the Corporation would expect to obtain such funds from, one or a combination of, the expansion of its existing credit facilities, or from public or private sales of equity or debt securities.

Inflation has not had a significant impact on the Corporation's results of operations.

YEAR 2000 COMPLIANCE

Many computer-based systems experience problems handling dates beyond the year 1999. Therefore, some computer hardware and software will need to be modified in order to correctly process such dates. The Corporation recognizes the need to ensure that its business will not be adversely affected by the Year 2000. Beginning in its prior fiscal year (fiscal 1998), the Corporation commenced an intensive effort to identify and categorize potential problem areas and develop action plans. This process involves an examination of its products, and its internal systems, hardware and software, as well as contacting its suppliers to obtain assurances regarding their Year 2000 readiness.

The Corporation has developed a program to identify and test for Year 2000 issues with respect to its software products. The Corporation believes the current versions and certain non-current versions of its software distributed to end-users and third parties are Year 2000 compliant. The Corporation has completed the identification process and has substantially completed testing its current and certain non-current versions of its software products. The Corporation does not anticipate that remedial actions will be required; however, if they were necessary they would be substantially completed in the quarter ending May 31, 1999. Some non-current versions of the Corporation's older software products may not be Year 2000 compliant. Consistent with general practice in the software industry, customers that purchase support from the Corporation are provided with upgrades to the latest product versions which, as stated, are believed to be Year 2000 compliant. The Corporation is continuing with a process of contacting its customers, including those whose support has lapsed, and notifying them of the compliance status of the software they have licensed, as well as providing them with alternatives and information on how to achieve compliance. The Corporation expects that this process will be completed during the first half of 1999. The Corporation has also developed and licenses software to aid customers in identifying Year 2000 issues in applications derived from the Corporation's PowerHouse application development software. The Corporation's Year 2000 compliance program for its software products does not certify applications built with the Corporation's software products, nor the underlying operating system and data.

In conjunction with the Corporation's software, the Corporation had completed contacting its suppliers, distributors, and resellers by early January 1999, with a view to obtaining assurances that their business operations and the products they provide are Year 2000 compliant. A program has been initiated to review the replies and, if necessary, make further inquiries to satisfy the Corporation that these third parties will be Year 2000 compliant. The testing process of the software products developed and licensed by the Corporation includes testing of the software supplied to it from third parties. There can be no assurance that the testing will identify all Year 2000 issues, nor can there be any assurance that the products of such suppliers, distributors, and resellers will be Year 2000 compliant. Furthermore, as the Corporation's software may process data from other sources and run on third-party operating systems and hardware, there can be no assurance that such data, operating systems, and hardware will be Year 2000 compliant.

With respect to the Corporation's internal processes and systems, the Corporation has identified internal hardware and software systems that may be affected by the Year 2000. The Corporation's financial application systems were identified as the most significant internal systems that were not Year 2000 compliant. During the quarter ended November 30, 1998,

the Corporation upgraded to a version that it believed to be Year 2000 compliant and has now conducted the Year 2000 validation testing of this environment. As well, the Corporation plans to, where appropriate, replace or make the required changes to its internal hardware and software systems, and to test the changes during the first half of 1999. The Corporation has contacted its suppliers and others with which it does business and has received replies from most indicating their readiness for Year 2000 and, where applicable, their Year 2000 compliance timetable. Where the responses have not yet been received, are incomplete, or are not satisfactory, a program has been initiated to make further inquiries to satisfy the Corporation that these suppliers will be Year 2000 compliant, or where required, identify alternative suppliers as a contingency plan. However, there can be no guarantee that the systems, acquired from or used by other companies, on which the Corporation's business relies will be converted in a timely manner, or that a failure to convert by another company, or a conversion that is incompatible with the Corporation's systems, will not have a material adverse effect on the Corporation.

The Corporation will utilize both internal and external resources to test, and if necessary, modify or replace its software products and its internal processes and systems to achieve Year 2000 compliance. The cost of the Year 2000 project is being funded through the operating cash flow of the Corporation. The total Year 2000 project costs for both the Corporation's software products, and its internal processes and systems are estimated to be somewhat in excess of $2.0 million, of which approximately $0.1 million represents fixed assets that will be capitalized. To date, approximately $1.7 million has been expensed. These costs are not expected to have a material adverse effect on the Corporation's business, results of operations, or financial condition. The costs and the dates on which the Corporation plans to complete certain elements of the Year 2000 project are based on management's best estimates, utilizing numerous assumptions of future events. There can be no assurance that these assumptions may not change and result in a difference to these estimates and materially adversely effect the Corporation's business, results of operations, or financial condition.

The Corporation intends to develop contingency plans to address situations where the timetable for achieving Year 2000 compliance of its software products, and its internal processes and systems is not likely to be met. Based on the status of testing of its products and internal systems as of February 28, 1999, the Corporation believes its program is on schedule. However, the Corporation expects to identify during the first half of 1999, those third-party business systems and processes which might cause significant impact on the business should they fail for any reason. The contingency plans that will then be developed will need to consider, among others, the impact on resource allocations, staffing, utilities, and possible delays in existing research and development projects. There can be no assurance that all possible scenarios that may require contingency plans will be identified nor can there be assurance that the contingency plans developed will appropriately address the issue. There can be no assurance that if the Corporation is forced to implement its contingency plans that there will not be a material adverse effect on the Corporation's business, results of operations, or financial condition.

EUROPEAN ECONOMIC AND MONETARY UNION

The introduction of the euro currency on January 1, 1999 has associated with it many potential implications for businesses operating in Europe including, but not limited to, products, information technology, pricing, currency exchange rate risk and derivatives exposure, continuity of material contracts, and potential tax consequences.

The Corporation is preparing for this new euro currency, which is scheduled to be introduced in stages over the course of a 3½ year transition period. The Corporation believes the introduction of the euro will have limited longer-term implications on the Corporation's business. The Corporation is preparing for the introduction of the euro in the area of its internal processes and systems through identifying, modifying, and testing these processes and systems to handle

transactions involving the euro in accordance with the regulations. The Corporation's financial application systems represent the most significant internal systems that will be affected by the introduction of the euro. During fiscal 1999, the Corporation upgraded to a version that it believes enables it, together with certain process changes and modifications provided by the application vendor to its supported customers, to handle the initial requirements for transactions involving the euro. The Corporation expects to continue to identify and, where necessary, modify its systems and processes in order to handle the various stages of the euro implementation. The Corporation is continuing to monitor its pricing in Europe, giving consideration to the introduction of the euro.

The Corporation believes that the costs relating to the conversion of its internal systems and processes will not have a material adverse effect on its business, results of operations, or financial condition.

MARKET RISK

Market risk represents the risk of loss that may impact the financial position of the Corporation due to adverse changes in financial market prices and rates. The Corporation's market risk exposure is primarily a result of fluctuations in interest rates and foreign currency exchange rates. The Corporation does not hold or issue financial instruments for trading purposes.

Further discussion of the Corporation's investment and foreign exchange policies can be found in Notes 1 and 8 of the Notes to the Consolidated Financial Statements.

Interest Rate Risk

The Corporation's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. The investment of cash is regulated by the Corporation's investment policy, of which the primary objective is security of principal. Among other selection criteria, the Corporation's investment policy states that the term to maturity of its investments cannot exceed one year in length. The Corporation does not use derivative financial instruments in its investment portfolio.

The interest income on the Corporation's cash, cash equivalents, and short-term investments is subject to interest rate fluctuations, but the Corporation believes that the impact of these fluctuations does not have a material effect on the financial position of the Corporation due to the short-term nature of these financial instruments. The amount of the Corporation's long-term debt is immaterial. The Corporation's interest income and interest expense are most sensitive to the general level of interest rates in Canada and the United States. Sensitivity analysis is used to measure the Corporation's interest rate risk. For the fiscal year ending February 28, 1999, a 100 basis-point adverse change in interest rates would not have had a material effect on the consolidated financial position, earnings, or cash flows of the Corporation.

Foreign Currency Risk

The Corporation operates internationally; accordingly, a substantial portion of its financial instruments are held in currencies other than the United States dollar. The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge portions of the net investment in its various subsidiaries. The forward contracts are typically between the United States dollar and the British pound, the German mark, and the Australian dollar. Sensitivity analysis is used to measure the Corporation's foreign currency exchange rate risk. As of February 28, 1999, a 10% adverse change in foreign exchange rates versus the U.S. dollar would not have had a material effect on the Corporation's reported cash, cash equivalents, and short-term investments.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain statements made in this report by the Corporation including, but not limited to, statements relating to the Corporation's expectations concerning future revenues and earnings, including future rates of growth, from the licensing of its business intelligence and application development products and related product support and services, and relating to the sufficiency of capital to meet working capital and capital expenditure requirements constitute forward-looking statements. These statements, like all forward-looking statements, are subject to risks and uncertainties that may cause future results to differ materially from those expected. There can be no guarantee that future results will turn out as expected. Factors that may cause such differences include, but are not limited to, the factors discussed below. These, and other factors, are discussed from time to time in the Corporation's filings with various regulatory authorities.

Revenue

Although the Corporation has experienced significant license revenue growth with respect to its business intelligence products over the past few fiscal years, there can be no assurance that the rate or extent of such growth will continue in the future. In addition, the Corporation has been experiencing a decline in product license revenue from its application development tools over the past several years. Despite the product license revenue growth in the current fiscal year, the Corporation expects that, in the long term, this trend toward declining revenues in its more established proprietary markets for application development tools will continue.

Fluctuations in Quarterly Financial Results

The Corporation's quarterly and annual operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability, including the Corporation's ability to maintain revenue growth at current levels or anticipate a decline in revenue; the impact of currency fluctuations and foreign currency translations; the Corporation's ability to identify and develop new technologies and to commercialize those technologies into new products; the introduction of new products in a timely manner; the Corporation's ability to generate demand for, and gain market acceptance of, those products in an intensely competitive marketplace; the Corporation's ability to identify, develop, and deliver product enhancements which anticipate market demand and address customer needs; competitive pressures on selling prices; the timing and cancellation of customer orders; the introduction of products and technologies by the Corporation's competitors; market acceptance of the competitors' products; the timing of investments in research and development; the timing and provision of pricing protections and exchanges from certain distributors; changes in product mix; the Corporation's reliance on third-party distribution channels as part of its sales and marketing strategy; the Corporation's ability to attract and retain the necessary personnel; the Corporation's ability to address issues relating to Year 2000 compliance through testing and, if necessary, modification of its software products, and the ability to obtain assurances from its suppliers with respect to their internal processes and systems; the Corporation's ability to address issues relating to the conversion to the euro; and the Corporation's ability to enforce its intellectual property rights. As a result of the foregoing and other factors, the Corporation may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, financial condition, operating results, and stock price. The Corporation typically realizes a larger percentage of its annual revenue and earnings in the fourth quarter of a fiscal year, and lower revenue and earnings in the first quarter of the following fiscal year.

Technological Change

The market for the Corporation's products is characterized by rapid and significant technological change. The development of new technologies, commercialization of those technologies into products, and market acceptance and customer demand for those products are critical to the Corporation's success. Successful product development and introduction depend upon a number of factors, including new product selection, timely and efficient completion of product design, product performance at customer locations, and development of products by competitors. There can be no assurance that the Corporation's products will remain competitive or respond to market demands and conditions or not become obsolete. In particular, there can be no assurance that the Corporation has developed the appropriate products to respond effectively to the growing market interest in Web-based software, or if so, whether the Corporation can bring those products to market in a timely fashion and distribute those products in the face of competition from similar products developed by existing or new competitors.

Reliance on Partners and Other Distribution Channels

The Corporation's sales and marketing strategy includes multi-tiered channels ranging from a direct sales force to various forms of third-party distributors, resellers, and original equipment manufacturers. The Corporation has developed a number of these relationships and intends to continue to develop new channel partner relationships. The Corporation's inability to attract important and effective channel partners, or these partners' inability to penetrate their respective market segments, or the loss of any of the Corporation's channel partners as a result of competitive products offered by other companies or products developed internally by these channel partners or otherwise, could materially adversely affect the Corporation's business, results of operations, and financial condition.

Intellectual Property

The Corporation relies on certain intellectual property protections to preserve its intellectual property rights. Any invalidation of the Corporation's intellectual property rights or lengthy and expensive defense of those rights could have a material adverse affect on the Corporation. Certain technologies used by the Corporation's products are licensed from third parties, generally on a non-exclusive basis. The termination of such licenses, or the failure of the third-party licensors to adequately maintain or update their products, could result in delay in the Corporation's ability to ship certain of its products while it seeks to implement technology offered by alternative sources, and any required replacement licenses could prove costly. While it may be necessary or desirable in the future to obtain other third-party technology licenses relating to one or more of the Corporation's products or relating to current or future technologies, there can be no assurance that the Corporation will be able to do so on commercially reasonable terms or at all.

Competitors

The Corporation faces substantial competition throughout the world, primarily from software companies located in the United States, Europe, and Canada. Some of the Corporation's competitors have substantially greater financial and other resources with which to pursue research and development, manufacturing, marketing, and distribution of their products. The Corporation expects its current competitors and potentially new competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. New product introductions by the Corporation's competitors could cause a decline in sales or loss of market acceptance of the Corporation's existing products.

International Operations

The Corporation derives a significant portion of its total revenues from international sales. International sales are subject to significant risks including unexpected changes in legal and regulatory requirements and policy changes affecting the Corporation's markets; changes in tariffs, currency exchange rates, and other barriers; political and economic instability; difficulties in accounts receivable collection; difficulties in managing distributors and representatives; difficulties in staffing and managing foreign operations; difficulties in protecting the Corporation's intellectual property; and potentially adverse tax consequences.

Dependence on Key Personnel

The Corporation's performance is substantially dependent on the performance of its key technical and senior management personnel. The loss of the services of any of such personnel could have a material adverse effect on the business, results of operations, and financial condition of the Corporation. The Corporation's success is highly dependent on its continuing ability to identify, hire, train, motivate, and retain highly qualified management, technical, sales, and marketing personnel. Competition for such personnel is intense, and there can be no assurance the Corporation will be able to attract, assimilate, or retain highly qualified technical and managerial personnel in the future. The inability to attract and retain the necessary management, technical, sales, and marketing personnel could have a material adverse effect on the Corporation's business, results of operations, and financial condition.

Risks Associated with Recent and Possible Acquisitions

The Corporation recently completed the acquisitions of Relational Matters and LEX2000 Inc., and in fiscal 1998, Right Information Systems Limited and Interweave Software, Inc., and may in turn engage in selective acquisitions of other products or businesses that are complementary to those of the Corporation. There can be no assurance that the Corporation will be able to identify additional suitable acquisition candidates available for sale at reasonable prices, consummate any acquisition, or successfully integrate any acquired product or business into the Corporation's operations. Further, acquisitions may involve a number of special risks, including diversion of Management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities, and the ability to appropriately value the acquired in-process research and development, some or all of which could have a material adverse effect on the Corporation's business, results of operations, and financial condition. Problems with an acquired business could have a material adverse effect on the performance of the Corporation as a whole. If the Corporation proceeds with an acquisition, the Corporation's available cash may be used to complete the transaction, or shares may be issued which could cause a dilution to existing shareholders.

Possible Volatility of Stock Price

The market price of the Corporation's common shares may be volatile and could be subject to wide fluctuations in response to variations in results of operations, announcements of technological innovations or new products by the Corporation or its competitors, changes in financial estimates by securities analysts, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many high technology companies and that often have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. Broad market fluctuations or any failure of the Corporation's operating results in a particular quarter to meet market expectations may adversely affect the market price of the common shares of the Corporation.

QUARTERLY RESULTS

The following table sets out selected unaudited consolidated financial information for each quarter in fiscal 1998 and fiscal 1999.

	FISCAL 1998				FISCAL 1999			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
					($000S, EXCEPT PER SHARE AMOUNTS, U.S. GAAP)			
Revenue	$54,016	$58,043	$62,048	$70,727	**$67,309**	**$70,583**	**$76,308**	**$86,925**
Operating expenses								
Cost of product license	821	938	1,028	1,041	**942**	**1,137**	**1,354**	**2,305**
Cost of product support	2,290	2,320	2,382	2,702	**2,408**	**2,793**	**2,968**	**2,997**
Selling, general, and administrative	32,728	33,799	36,184	38,171	**41,706**	**40,708**	**43,355**	**46,713**
Research and development	7,750	7,929	8,593	9,258	**9,946**	**10,235**	**10,863**	**11,230**
Acquired in-process technology	5,000	–	13,000	–	–	–	–	**3,800**
Total operating expenses	48,589	44,986	61,187	51,172	**55,002**	**54,873**	**58,540**	**67,045**
Operating income	$ 5,427	$13,057	$ 861	$19,555	**$12,307**	**$15,710**	**$17,768**	**$19,880**
Net income	$ 3,834	$11,010	$ 783	$17,015	**$11,276**	**$14,122**	**$15,855**	**$17,181**
Net income per share								
Basic	$0.09	$0.25	$0.02	$0.38	**$0.26**	**$0.32**	**$0.36**	**$0.40**
Diluted	$0.08	$0.24	$0.02	$0.38	**$0.25**	**$0.32**	**$0.36**	**$0.39**

The Corporation's sales cycle typically ranges from a few days up to twelve months, depending on factors such as the size of the transaction, the product involved, the length of the customer relationship, the timing of new product introductions by the Corporation and others, the level of sales management activity, and general economic conditions. Delays in closing product licensing transactions at or near the end of any quarter may have a materially adverse effect on the financial results for that quarter. While the Corporation takes steps to minimize the impact of such delays, there can be no assurance that such delays will not occur. See Certain Factors That May Affect Future Results.

REPORT OF MANAGEMENT

The Corporation's management is responsible for preparing the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded and that transactions are executed and recorded in accordance with the Corporation's policies for doing business. This system is supported by written policies and procedures for key business activities; the hiring of qualified, competent staff; and by a continuous planning and monitoring program.

Ernst & Young LLP, the independent auditors appointed by the shareholders, has been engaged to conduct an examination of the consolidated financial statements in accordance with generally accepted auditing standards, and have expressed their opinion on these statements. During the course of their audit, Ernst & Young LLP reviewed the Corporation's system of internal controls to the extent necessary to render their opinion on the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee; all members are outside Directors. The Committee meets four times annually to review audited and unaudited financial information prior to its public release. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the external auditors. Ernst & Young LLP has full and free access to the Audit Committee.

Management acknowledges its responsibility to provide financial information that is representative of the Corporation's operations, is consistent and reliable, and is relevant for the informed evaluation of the Corporation's activities.

James M. Tory
Chairman

Ron Zambonini
President and
Chief Executive Officer

Donnie M. Moore
Senior Vice President,
Finance and Administration,
and Chief Financial Officer

March 31, 1999

AUDITORS' REPORT

To the Board of Directors and Shareholders of Cognos Incorporated:

We have audited the consolidated balance sheets of Cognos Incorporated as at February 28, 1999 and February 28, 1998 and the consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at February 28, 1999 and February 28, 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 1999, in accordance with accounting principles generally accepted in the United States of America.

On March 31, 1999, we reported separately to the Board of Directors and Shareholders of Cognos Incorporated on financial statements for the same periods, prepared in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Ottawa, Canada
March 31, 1999

Ernst & Young LLP
Chartered Accountants

CONSOLIDATED STATEMENTS OF INCOME

(US$000S EXCEPT SHARE AMOUNTS, U.S. GAAP)

	Note	YEARS ENDED THE LAST DAY OF FEBRUARY 1999	1998	1997
Revenue				
Product license		**$158,393**	$126,820	$101,575
Product support		**93,311**	72,832	63,681
Services		**49,421**	45,182	32,929
Total revenue		**301,125**	244,834	198,185
Operating expenses				
Cost of product license		**5,738**	3,828	3,266
Cost of product support		**11,166**	9,694	9,634
Selling, general, and administrative		**172,482**	140,882	114,617
Research and development		**42,274**	33,530	28,951
Acquired in-process technology	5	**3,800**	18,000	–
Total operating expenses		**235,460**	205,934	156,468
Operating income		**65,665**	38,900	41,717
Interest expense	6	**(527)**	(481)	(427)
Interest income		**6,430**	5,340	4,524
Income before taxes		**71,568**	43,759	45,814
Income tax provision	9	**13,134**	11,117	9,025
Net income		**$ 58,434**	$ 32,642	$ 36,789
Net income per share	10			
Basic		**$1.34**	$0.74	$0.85
Diluted		**$1.31**	$0.71	$0.80
Weighted average number of shares (000s)	10			
Basic		**43,708**	44,207	43,149
Diluted		**44,470**	45,772	46,052

(see accompanying notes)

CONSOLIDATED BALANCE SHEETS

(US$000S, U.S. GAAP)

	Note	FEBRUARY 28, 1999	FEBRUARY 28, 1998
Assets			
Current assets			
Cash and cash equivalents	8	$ 93,617	$ 89,614
Short-term investments	8	56,074	36,712
Accounts receivable	2	76,876	63,494
Inventories		807	578
Prepaid expenses		6,388	3,774
		233,762	194,172
Fixed assets	3	30,164	20,507
Intangible assets	4	25,203	4,984
		$289,129	$219,663
Liabilities			
Current liabilities			
Accounts payable		$ 18,960	$ 15,753
Accrued charges		13,148	9,676
Salaries, commissions, and related items		19,656	14,066
Income taxes payable		7,290	1,688
Current portion of long-term debt	6	123	124
Deferred product support revenue		51,242	40,019
		110,419	81,326
Long-term debt	6	2,489	2,333
Long-term liabilities	5	5,820	–
Deferred income taxes	9	7,787	4,999
		126,515	88,658
Commitments and Contingencies	7, 13		
Stockholders' Equity			
Capital stock			
Common shares (1999 – 43,425,284; 1998 – 44,104,058)	10	91,985	85,718
Retained earnings		79,341	52,039
Accumulated comprehensive items		(8,712)	(6,752)
		162,614	131,005
		$289,129	$219,663

(see accompanying notes)

On behalf of the Board:

Douglas C. Cameron, *Director*

James M. Tory, *Chairman*

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(US$000S EXCEPT SHARE AMOUNTS, U.S. GAAP)

	Common Stock Shares (000s)	Common Stock Amount	Retained Earnings	Accumulated Comprehensive Items	Total
Balances, February 29, 1996	42,261	$67,891	$ 15,640	$(5,234)	$ 78,297
Issuance of stock					
Stock option plans	1,590	5,492			5,492
Stock purchase plans	30	519			519
Repurchase of shares	(292)	(489)	(6,307)		(6,796)
Income tax effect related to stock options		1,326			1,326
	43,589	74,739	9,333	(5,234)	78,838
Net income			36,789		36,789
Other comprehensive items					
Foreign currency translation adjustments				285	285
Comprehensive income			36,789	285	37,074
Balances, February 28, 1997	43,589	$74,739	$ 46,122	$(4,949)	$115,912
Issuance of stock					
Stock option plans	1,658	8,557			8,557
Stock purchase plans	37	776			776
Business acquisitions	90	1,607			1,607
Repurchase of shares	(1,270)	(2,386)	(26,725)		(29,111)
Income tax effect related to stock options		2,425			2,425
	44,104	85,718	19,397	(4,949)	100,166
Net income			32,642		32,642
Other comprehensive items					
Foreign currency translation adjustments				(1,803)	(1,803)
Comprehensive income			32,642	(1,803)	30,839
Balances, February 28, 1998	44,104	$85,718	$ 52,039	$(6,752)	$131,005
Issuance of stock					
Stock option plans	527	4,141			4,141
Stock purchase plans	46	846			846
Business acquisitions	251	3,763			3,763
Repurchase of shares	(1,503)	(3,005)	(31,132)		(34,137)
Income tax effect related to stock options		522			522
	43,425	91,985	20,907	(6,752)	106,140
Net income			58,434		58,434
Other comprehensive items					
Foreign currency translation adjustments				(1,960)	(1,960)
Comprehensive income			58,434	(1,960)	56,474
Balances, February 28, 1999	43,425	$91,985	$ 79,341	$(8,712)	$162,614

(see accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(US$000S, U.S. GAAP)

	YEARS ENDED THE LAST DAY OF FEBRUARY		
	1999	1998	1997
Cash provided by (used in) operating activities			
Net income	**$ 58,434**	$ 32,642	$ 36,789
Non-cash items			
Depreciation and amortization	**12,145**	9,754	10,058
Write-off of acquired in-process technology	**3,800**	18,000	–
Deferred income taxes	**(1,984)**	543	(291)
Loss on disposal of fixed assets	**185**	403	298
	72,580	61,342	46,854
Change in non-cash working capital			
Increase in accounts receivable	**(12,805)**	(17,135)	(10,799)
Decrease (increase) in inventory	**(267)**	91	235
Decrease (increase) in prepaid expenses	**(2,852)**	(837)	345
Increase in accounts payable	**3,526**	3,571	2,866
Increase in accrued charges	**2,568**	300	1,106
Increase in salaries, commissions, and related items	**5,806**	2,948	1,958
Increase (decrease) in income taxes payable	**5,624**	(2,603)	2,352
Increase in deferred product support revenue	**10,438**	8,208	3,853
	84,618	55,885	48,770
Cash provided by (used in) investing activities			
Maturity of short-term investments	**96,860**	131,340	162,812
Purchase of short-term investments	**(116,093)**	(151,141)	(168,592)
Acquisition costs	**(9,174)**	(16,915)	–
Additions to fixed assets	**(21,147)**	(12,068)	(9,696)
Proceeds from the sale of fixed assets	**12**	45	126
	(49,542)	(48,739)	(15,350)
Cash provided by (used in) financing activities			
Issue of common shares (net)	**5,509**	11,758	7,337
Repurchase of shares	**(34,137)**	(29,111)	(6,796)
Repayment of long-term debt	**(107)**	(92)	(102)
	(28,735)	(17,445)	439
Effect of exchange rate changes on cash	**(2,338)**	(1,240)	(36)
Net increase (decrease) in cash and cash equivalents	**4,003**	(11,539)	33,823
Cash and cash equivalents, beginning of period	**89,614**	101,153	67,330
Cash and cash equivalents, end of period	**93,617**	89,614	101,153
Short-term investments, end of period	**56,074**	36,712	18,075
Cash, cash equivalents, and short-term investments, end of period	**$ 149,691**	$ 126,326	$ 119,228

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared by the Corporation in United States (U.S.) dollars and in accordance with generally accepted accounting principles (GAAP) in the U.S., applied on a consistent basis.

Consolidated financial statements prepared in accordance with Canadian GAAP, in U.S. dollars, are made available to all shareholders, and filed with various regulatory authorities.

Basis of Consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. All but two of the subsidiaries are wholly owned. Intercompany transactions and balances have been eliminated.

Estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. In the opinion of Management, these consolidated financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates.

Comprehensive Income

Effective March 1, 1998, the Corporation adopted the Financial Accounting Standards Board's (FASB) Statement No. 130, *Reporting Comprehensive Income.* Comprehensive Income includes net income and "other comprehensive income." Other comprehensive income refers to changes in the balances of revenues, expenses, gains, and losses that are recorded directly as a separate component of Stockholders' Equity and excluded from net income. The only comprehensive item for the Corporation relates to foreign currency translation adjustments pertaining to those subsidiaries not using the U.S. dollar as their functional currency.

Foreign Currency Translation

The financial statements of the parent company and its non-U.S. subsidiaries have been translated into U.S. dollars in accordance with the FASB Statement No. 52, *Foreign Currency Translation.* All balance sheet amounts have been translated using the exchange rates in effect at the applicable year end. Income statement amounts have been translated using the weighted average exchange rate for the applicable year. The gains and losses resulting from the changes in exchange rates from year to year have been reported as a separate component of Stockholders' Equity. Currency transaction gains and losses are immaterial for all periods presented.

Revenue

The Corporation recognizes revenue in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition,* issued by the American Institute of Certified Public Accountants (AICPA) in October 1997 and amended by SOP 98-4 issued in March 1998. Additionally, SOP 98-9 issued in December 1998 extends certain provisions of SOP 98-4 and amends certain provisions of SOP 97-2. SOP 98-9 will be effective for the Corporation's fiscal year ending February 2001. The Corporation does not expect the adoption of SOP 98-9 to have a material impact on its results of operations or financial position.

Substantially all of the Corporation's product license revenue is earned from licenses of off-the-shelf software requiring no customization. Revenue from these licenses is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable.

Revenue from product support contracts is recognized ratably over the life of the contract. Incremental costs directly attributable to the acquisition of product support contracts are deferred and expensed in the period the related revenue is recognized.

Revenue from education, consulting, and other services is recognized at the time such services are rendered.

Cash, Cash Equivalents, and Short-Term Investments

Cash includes cash equivalents, which are investments that are generally held to maturity and have terms to maturity of three months or less at the time of acquisition. Cash equivalents typically consist of commercial paper, term deposits, banker's acceptances and bearer deposit notes issued by major North American banks, and corporate debt. Cash and cash equivalents are carried at cost, which approximates their fair value.

Short-term investments are investments that are generally held to maturity and have terms greater than three months at the time of acquisition. Short-term investments typically consist of commercial paper, Government of Canada Treasury Bills, and banker's acceptances. Short-term investments are carried at cost, which approximates their fair value.

Inventories

Inventories are comprised principally of finished goods and are stated at the lower of cost, on an average cost basis, or net realizable value.

Fixed Assets

Fixed assets are recorded at cost. Computer equipment and software, and the building, are depreciated using the straight line method. Office furniture is depreciated using the diminishing balance method. Leasehold improvements are amortized using the straight line method over either the life of the improvement or the term of the lease, whichever is shorter.

Assets leased on terms that transfer substantially all of the benefits and risks of ownership to the Corporation are accounted for as capital leases, as though the asset had been purchased and a liability incurred. All other leases are accounted for as operating leases.

Intangible Assets

This category includes acquired technology and goodwill associated with various acquisitions, and deferred software development costs.

Acquired technology represents the discounted fair value of the estimated net future income-producing capabilities of software products acquired on acquisitions. Acquired technology is amortized over five years on a straight line basis. The Corporation evaluates the expected future net cash flows of the acquired technology at each reporting date, and adjusts to net realizable value if necessary.

Goodwill represents the excess of the purchase price of acquired companies over the estimated fair value of the tangible and intangible net assets acquired. Goodwill is amortized over five years on a straight line basis. The Corporation evaluates the expected future net cash flows of the acquired businesses at each reporting date, and adjusts goodwill for any impairment.

Software development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Research costs are expensed as incurred. For costs that are capitalized, the amortization is the greater of the amount calculated using either (i) the ratio that the appropriate product's current gross revenues bear to the total of current and anticipated future gross revenues for that product, or (ii) the straight line method over the remaining economic life of the product. Such amortization is recorded over a period not exceeding three years. The Corporation reassesses whether it has met the relevant criteria for continued deferral and amortization at each reporting date.

Income Taxes

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using the enacted tax rates and laws.

2. ACCOUNTS RECEIVABLE

Accounts receivable include an allowance for doubtful accounts of $4,430,000 and $3,707,000 as of February 28, 1999 and February 28, 1998, respectively.

3. FIXED ASSETS

	1999		1998		
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization	Depreciation/ Amortization Rate
	($000s)		($000s)		
Computer equipment and software	**$ 46,795**	**$32,665**	$ 38,018	$26,634	33%
Office furniture	**15,877**	**9,230**	13,422	8,292	20%
Leasehold improvements	**5,404**	**2,754**	4,052	2,122	Lease Term
Land	**788**	**–**	230	–	–
Building	**6,916**	**967**	2,703	870	2.5%
	75,780	**$45,616**	58,425	$37,918	
	(45,616)		(37,918)		
Net book value	**$ 30,164**		$ 20,507		

Depreciation and amortization of fixed assets was $10,760,000, $8,766,000, and $6,377,000 in each of fiscal 1999, 1998, and 1997, respectively.

4. INTANGIBLE ASSETS

	1999 ($000s)	1998 ($000s)
Acquired technology and goodwill (net)	$25,203	$4,929
Deferred software development costs (net)	–	55
	$25,203	$4,984

The Corporation recorded $21,604,000 and $5,487,000 of acquired technology and goodwill in fiscal 1999 and fiscal 1998, and $1,330,000 and $558,000 of corresponding amortization, respectively (see Note 5).

The Corporation did not capitalize any costs of internally-developed computer software to be sold, licensed, or otherwise marketed in each of fiscal 1999, 1998, and 1997, and recorded $55,000, $430,000, and $3,681,000 of corresponding amortization, respectively.

5. ACQUISITIONS

Fiscal 1999 Acquisitions

On December 3, 1998, the Corporation completed the acquisition of substantially all the assets of Relational Matters including DecisionStream software. DecisionStream aggregates and integrates large volumes of transaction data with multidimensional data structures. Relational Matters will receive approximately $7,550,000 over three years and 125,490 shares of the Corporation's common stock valued at $1,823,000 over the same time period. The shares, all of which were issued, are being held in escrow by the Corporation and will be released on the second (40%) and third (60%) anniversaries of the closing of the transaction. For valuation purposes, the deferred payments and shares were appropriately discounted. An independent appraisal valued the in-process research and development at $2,400,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $2,400,000 ($0.05 per share on a diluted basis) in the fourth quarter ended February 28, 1999, to write off the acquired in-process technology.

On February 24, 1999, the Corporation completed the acquisition of LEX2000 Inc., a developer of financial data mart and reporting software, for a combination of cash and the Corporation's common stock. The shareholders of LEX2000 Inc. will receive approximately $7,444,000 over three years and 126,059 shares of the Corporation's common stock valued at $1,940,000 over the same time period. Approximately 7,100 shares were issued at closing; the remainder, all of which were issued, are being held in escrow by the Corporation and will be released equally on the second (50%) and third (50%) anniversaries of the closing of the transaction. For valuation purposes, the deferred payments and remaining shares were appropriately discounted. An independent appraisal valued the in-process research and development at $1,400,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $1,400,000 ($0.03 per share on a diluted basis) in the fourth quarter ended February 28, 1999, to write off the acquired in-process technology.

The scheduled aggregate annual payments for the long-term liabilities related to these two acquisitions are $0, $3,169,000, and $2,651,000 in fiscal 2000, 2001, and 2002, respectively.

Both acquisitions have been accounted for using the purchase method. The results of operations of both acquired companies prior to the acquisitions were not material, and thus pro forma information has not been provided. The results of both acquired companies have been combined with those of the Corporation since their respective dates of acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date: ($000s)

	Relational Matters	LEX2000	Total
Assets acquired			
In-process technology	$2,400	$ 1,400	$ 3,800
Acquired technology	3,600	13,165	16,765
Other assets	25	1,501	1,526
	6,025	16,066	22,091
Liabilities assumed	(37)	(2,869)	(2,906)
Deferred tax credits	–	(5,267)	(5,267)
Net assets acquired	5,988	7,930	13,918
Goodwill	3,385	1,454	4,839
Purchase price	$9,373	$ 9,384	$18,757
Consideration			
Cash	$4,419	$ 4,755	$ 9,174
Deferred payment	3,131	2,689	5,820
Shares	1,823	1,940	3,763
	$9,373	$ 9,384	$18,757

Fiscal 1998 Acquisitions

On April 9, 1997, the Corporation completed the acquisition of Right Information Systems Limited (RIS) of London, England. RIS was the provider of 4Thought, business modeling and forecasting software. The shareholders of RIS received $4,500,000 and 90,000 shares of the Corporation's common stock, valued at $1,607,000. These shares, all of which were issued, are being held in escrow by the Corporation until April 9, 2000. An independent appraisal valued the in-process research and development at $5,000,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $5,000,000 ($0.11 per share on a diluted basis) in the first quarter ended May 31, 1997, to write off the acquired in-process technology.

On October 24, 1997, the Corporation completed the acquisition of Interweave Software, Inc. (Interweave) of Santa Clara, California, U.S.A. Interweave was the developer and marketer of the Interweave software product line, which allows information technology organizations to deploy intranet- and extranet-based business intelligence applications more broadly within and across enterprises. The acquisition agreement called for the Corporation to pay $12,415,000 to the shareholders of Interweave, the majority of which was paid upon completion of the acquisition. An independent appraisal valued the in-process research and development at $13,000,000. In the opinion of management and the appraiser, the acquired in-process research and development had not yet reached technological feasibility and had no alternative future uses. Accordingly, the Corporation recorded a special charge of $13,000,000 ($0.28 per share on a diluted basis) in the third quarter ended November 30, 1997, to write off the acquired in-process technology.

Both acquisitions have been accounted for using the purchase method. The results of operations of both acquired companies prior to the acquisitions were not material, and thus pro forma information has not been provided. The results of both acquired companies have been combined with those of the Corporation since their respective dates of acquisition.

Total consideration, including acquisition costs, was allocated based on estimated fair values on the acquisition date: ($000s)

	RIS	Interweave	Total
Assets acquired			
In-process technology	$ 5,000	$13,000	$18,000
Other assets	239	390	629
	5,239	13,390	18,629
Liabilities assumed	(1,050)	(4,544)	(5,594)
Net assets acquired	4,189	8,846	13,035
Goodwill	1,918	3,569	5,487
Purchase price	$ 6,107	$12,415	$18,522
Consideration			
Cash	$ 4,500	$12,415	$16,915
Shares	1,607	–	1,607
	$ 6,107	$12,415	$18,522

6. LONG-TERM DEBT

	1999 ($000s)	1998 ($000s)
Mortgage at 12.5% per annum, repayable in blended monthly installments of principal and interest of Cdn $45,200 to October 2000	**$2,160**	$2,383
Other	**452**	74
	2,612	2,457
Less current portion	**(123)**	(124)
	$2,489	$2,333

Interest expense on long-term debt was $271,000, $301,000, and $320,000 in fiscal 1999, 1998, and 1997, respectively.

Scheduled aggregate annual payments of long-term debt, including principal and interest, are $360,000, $2,623,000, and $0 in fiscal 2000, 2001, and 2002, respectively.

7. COMMITMENTS

Certain of the Corporation's offices, computer equipment, and vehicles are leased under various terms. The annual aggregate lease expense in each of fiscal 1999, 1998, and 1997 was $9,219,000, $8,599,000, and $7,455,000, respectively.

The aggregate amount of payments for these operating leases, in each of the next five fiscal years and thereafter, is approximately as follows: ($000s)

2000	$ 9,655
2001	6,566
2002	4,746
2003	3,671
2004	2,315
Thereafter	10,038

8. FINANCIAL INSTRUMENTS

The Corporation operates internationally in one business segment. The Corporation develops, markets, and supports computer software products for data access, exploring, reporting, and analysis, and for application development on a wide range of open and proprietary platforms. The Corporation markets and supports these products both directly and through resellers worldwide. The Corporation is not dependent on any single customer or group of customers, or supplier.

Off-Balance-Sheet Risk

The Corporation's policy with respect to foreign currency exposure is to manage its financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some of the impact of foreign currency exchange movements. To achieve this objective, the Corporation enters into foreign exchange forward contracts to hedge portions of the net investment in its various subsidiaries. As a result, the exchange gains and losses recorded on translation of the subsidiaries' financial statements are partially offset by the gains and losses attributable to the applicable foreign exchange forward contracts. Realized and unrealized gains and losses from the applicable foreign exchange forward contracts are recorded as part of the foreign currency translation adjustments included in the Consolidated Statements of Stockholders' Equity. The Corporation has foreign exchange conversion facilities that allow it to hold foreign exchange contracts of Cdn $130,000,000 (US $86,241,000) outstanding at any one time. The Corporation enters into foreign exchange forward contracts with major Canadian chartered banks, and therefore does not anticipate non-performance by these counterparties. The amount of the exposure on account of any non-performance is restricted to the unrealized gains in such contracts. As of February 28, 1999, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 25, 1999 to May 27, 1999, to exchange various foreign currencies in the amount of $3,862,000. As of February 28, 1998, the Corporation had foreign exchange forward contracts, with maturity dates ranging from March 26, 1998 to April 30, 1998, to exchange various foreign currencies in the amount of $2,173,000.

Concentration of Credit Risk

The investment of cash is regulated by the Corporation's investment policy, which is periodically reviewed and approved by the Audit Committee of the Board of Directors. The primary objective of the Corporation's investment policy is security of principal. The Corporation manages its investment credit risk through a combination of (i) a selection of securities with an acceptable credit rating; (ii) selection of term to maturity, which in no event exceeds one year in length; and (iii) diversification of debt issuers, both individually and by industry grouping.

Included in cash, cash equivalents, and short-term investments as of February 28, 1999 and February 28, 1998 were corporate debt amounts of $46,941,000 and $47,000,000, respectively. The corporate debt amounts as of February 28, 1999 were with two distinct issuers, whereas the amount as of February 28, 1998 was with a single issuer. These amounts were repaid, in full, at maturity in March of their respective years. All the Corporation's short-term investments as of February 28, 1999 and February 28, 1998 had maturity dates before the end of April of their respective years. The Corporation's cash, cash equivalents, and short-term investments are denominated predominantly in Canadian and U.S. dollars.

The Corporation has an unsecured credit facility, subject to annual renewal, that includes an operating line and foreign exchange conversion facilities. The operating line permits the Corporation to borrow funds or issue letters of credit or guarantee up to an aggregate of Cdn $15,000,000 (US $9,951,000), subject to certain covenants. As of February 28, 1999 and February 28, 1998, there were no direct borrowings under this operating line.

There is no concentration of credit risk related to the Corporation's position in trade accounts receivable. Credit risk, with respect to trade receivables, is minimized because of the Corporation's large customer base and its geographical dispersion (see Note 12).

Fair Value of Financial Instruments

For certain of the Corporation's financial instruments, including accounts receivable, accounts payable, and other accrued charges, the carrying amounts approximate the fair value due to their short maturities. Cash and cash equivalents, short-term investments, foreign exchange forward contracts, long-term debt, and long-term liabilities are carried at cost, which approximates their fair value.

9. INCOME TAXES

Details of the income tax provision (recovery) are as follows: ($000s)

	1999	1998	1997
Current			
Canadian	**$ 5,313**	$ 1,360	$ 860
Foreign	**9,228**	8,550	8,150
	14,541	9,910	9,010
Deferred			
Canadian	**(1,370)**	2,459	3,117
Foreign	**(37)**	(1,252)	(3,102)
	(1,407)	1,207	15
Income tax provision	**$13,134**	$11,117	$ 9,025

The reported income tax provision differs from the amount computed by applying the Canadian rate to income before income taxes. The reasons for this difference and the related tax effects are as follows: ($000s)

	1999	1998	1997
Expected Canadian tax rate	**44.0%**	44.0%	44.0%
Expected tax provision	**$ 31,490**	$ 19,254	$20,158
Foreign tax rate differences	**(10,906)**	(8,740)	(4,669)
Net change in valuation allowance and other income tax benefits earned	**(9,142)**	(10,759)	(8,255)
Non-deductible expenses and non-taxable income	**193**	643	483
Non-deductible in-process R&D write-off	**560**	7,400	–
Withholding tax on foreign income	**987**	822	509
Reorganization costs	**–**	2,426	–
Losses not recognized	**–**	–	606
Other	**(48)**	71	193
Reported income tax provision	**$ 13,134**	$ 11,117	$ 9,025

Deferred income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and tax reporting purposes. Significant components of the Corporation's deferred tax assets and liabilities as of February 28, 1999 and February 28, 1998 are as follows: ($000s)

	1999	1998
Deferred tax assets		
Net operating tax loss carryforwards	**$ 5,507**	$ 7,190
Investment tax credits	**4,499**	8,637
Deferred revenue	**2,702**	3,083
Other	**1,912**	1,416
Total deferred tax assets	**14,620**	20,326
Valuation allowance for deferred tax assets	**(5,507)**	(12,816)
Net deferred tax assets	**9,113**	7,510
Deferred tax liabilities		
Book and tax differences on assets	**6,969**	(505)
Reserves and allowances	**5,415**	8,696
Income tax credits	**4,502**	3,254
Research and development expenses	**–**	908
Other	**14**	156
Total deferred tax liabilities	**16,900**	12,509
Net deferred income tax liability	**$ 7,787**	$ 4,999

The net change in the total valuation allowance for the years ended February 28, 1999 and February 28, 1998 was a decrease of $7,309,000 and $10,616,000, respectively.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income in certain legal entities. Although realization is not assured, management believes it is more likely than not that the net amount of the deferred tax asset will be realized. However, this estimate could change in the near term as future taxable income in these certain legal entities changes.

As of February 28, 1999, the Corporation had tax loss carryforwards of approximately $12,159,000 available to reduce future years' income for tax purposes. These losses expire as follows: ($000s)

2000	$ 626
2001	636
2002	289
Indefinitely	10,608
Total	$12,159

Income before taxes attributable to all foreign operations was $42,152,000, $23,546,000, and $30,210,000 in each of fiscal 1999, 1998, and 1997, respectively.

The Corporation has provided for foreign withholding taxes on the portion of the undistributed earnings of foreign subsidiaries expected to be remitted.

Income taxes paid were $8,201,000, $11,273,000, and $5,119,000 in each of fiscal 1999, 1998, and 1997, respectively.

10. STOCKHOLDERS' EQUITY

Capital Stock

The authorized capital of the Corporation consists of an unlimited number of common shares, without nominal or par value, and an unlimited number of preferred shares, issuable in series. No series of preferred shares has been created or issued.

Shares Issued Pursuant to Certain Acquisitions

See Note 5.

Share Repurchase Programs

The share repurchases made in the past three fiscal years were part of distinct open market share repurchase programs through the Nasdaq National Market. The share repurchases made in fiscal 1999 were part of two open market share repurchase programs. The program adopted in October 1997 expired on October 6, 1998. Under this program the Corporation repurchased the maximum permitted under the plan; all repurchased shares were cancelled. In October 1998, the Corporation adopted a new program that will enable it to purchase up to 2,100,000 common shares (not more than 5% of those issued and outstanding) between October 9, 1998 and October 8, 1999. This program does not commit the Corporation to make any share repurchases. Purchases will be made on The Nasdaq Stock Market at prevailing open market prices and paid out of general corporate funds. All repurchased shares will be cancelled.

The details of the share repurchases were as follows:

	1999		1998		1997	
	Shares (000s)	Cost ($000s)	Shares (000s)	Cost ($000s)	Shares (000s)	Cost ($000s)
July 1996 program	–	$ –	85	$ 1,931	292	$6,796
October 1997 program	1,015	23,463	1,185	27,180	–	–
October 1998 program	488	10,674	–	–	–	–
	1,503	$34,137	1,270	$29,111	292	$6,796

The amount paid to acquire the shares over and above the average carrying value has been charged to retained earnings.

Stock Option Plans

As of February 28, 1999, the Corporation had stock options outstanding under two plans: 1,030,000 pertain to the 1997-2002 Stock Option Plan and 2,355,000 pertain to the 1993-1998 Stock Option Plan.

There were 7,000,000 shares of common stock originally reserved by the Board of Directors for issuance under the Corporation's 1997-2002 Stock Option Plan ("the Plan"), which was approved by the Corporation's shareholders in June 1997 and replaced the 1993-1998 Stock Option Plan. Options may be granted to directors, officers, employees, and consultants at such times and under such terms as established by the Plan. Options may be fully exercisable on the date of grant or may be exercisable in installments. Options will expire not later than 10 years from the date of grant or any shorter period as may be determined. All options are priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. There were 5,968,000 options available for grant under the Plan as of February 28, 1999.

Under the 1993-1998 Stock Option Plan, options were awarded to directors, officers, and employees. For the options outstanding as of February 28, 1999, the vesting dates range from April 1996 to September 2001 and the expiry dates range from April 1999 to September 2005. In April 1996, options were awarded to certain key officers under an executive option award. These options vest equally in April 1999, April 2000, and April 2001, and expire in April 2003. All options were priced at the market price of the Corporation's shares on The Toronto Stock Exchange on the trading day preceding the date of grant. The 1993-1998 Stock Option Plan expired on January 1, 1998.

Employee Stock Purchase Plan

This plan was approved by the Corporation's shareholders in July 1993 and will terminate on November 30, 1999. All full-time and part-time permanent employees may participate in the plan.

Accounting for Stock-Based Compensation

The Corporation applies APB Opinion 25 in accounting for its stock option and purchase plans. The exercise price of all stock options is equal to the market price of the stock on the trading day preceding the date of grant. Accordingly, no compensation cost has been recognized in the financial statements for its stock option and stock purchase plans.

If the fair values of the options granted since fiscal 1996 had been recognized as compensation expense on a straight line basis over the vesting period of the grant (consistent with the method prescribed by FASB Statement No. 123), stock-based compensation costs would have reduced net income by $8,239,000, $6,824,000, and $4,757,000; reduced basic net

income per share by $0.19, $0.15, and $0.11; and reduced diluted net income per share by $0.19, $0.15, and $0.10 in fiscal 1999, 1998, and 1997, respectively.

Because Statement No. 123 is applicable only to options granted subsequent to February 28, 1995 and the Corporation's amortization period for compensation expense approximates four years, the above pro forma disclosure for fiscal 1997 and 1998 is not indicative of pro forma amounts that will be reported in future years. The pro forma disclosure for fiscal 1999 includes the full extent of amortization expense for four years of option grants.

The fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal 1999, 1998, and 1997, respectively: risk-free interest rates of 5.5%, 6.5%, and 6.2%; expected life of the options of 2.9 years, 3.0 years, and 3.8 years; expected volatility of 56%, 56%, and 45%; and for all years, a dividend yield of zero.

Activity in the stock option plans for fiscal 1999, 1998, and 1997 was as follows:

	1999		1998		1997	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Outstanding, beginning of year	**3,286**	**$16.57**	3,970	$10.67	4,094	$ 4.62
Granted	**968**	**26.67**	1,095	22.95	1,594	18.88
Exercised	**(527)**	**7.86**	(1,658)	5.19	(1,590)	3.41
Cancelled	**(342)**	**19.05**	(121)	19.08	(128)	8.36
Outstanding, end of year	**3,385**	**19.44**	3,286	16.57	3,970	10.67
Options exercisable at year end	**730**		539		1,185	
Weighted average per share fair value of options granted during the year calculated using the Black-Scholes option pricing model		**$11.08**		$ 9.67		$ 7.69

The following table summarizes significant ranges of outstanding and exercisable options held by directors, officers, and employees as of February 28, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options (000s)	Weighted Average Remaining Life	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
$ 6.73 – $10.62	331	1.1 years	$ 7.09	330	$ 7.09
$16.85 – $21.23	2,098	5.4	18.52	368	19.01
$21.24 – $26.47	956	7.1	25.73	32	23.53
	3,385		19.44	730	13.81

Net Income per Share

In February 1997, FASB issued Statement No. 128, *Earnings per Share*, that was effective for financial statements ending after December 15, 1997. The Corporation adopted this Statement in fiscal 1998 and all prior periods were restated.

The dilutive effect of stock options is excluded under the new requirements for calculating net income per share, but is included in the calculation of diluted net income per share.

The reconciliation of the numerator and denominator for the calculation of net income per share and diluted net income per share is as follows: (000s, except per-share amounts)

	1999	1998	1997
Net Income per Share			
Net income	**$58,434**	$32,642	$36,789
Weighted average number of shares outstanding	**43,708**	44,207	43,149
Net income per share	**$1.34**	$0.74	$0.85
Diluted Net Income per Share			
Net income	**$58,434**	$32,642	$36,789
Weighted average number of shares outstanding	**43,708**	44,207	43,149
Dilutive effect of stock options *	**762**	1,565	2,903
Adjusted weighted average number of shares outstanding	**44,470**	45,772	46,052
Diluted net income per share	**$1.31**	$0.71	$0.80

** All anti-dilutive options have been excluded*

11. PENSION PLANS

The Corporation operates a Retirement Savings Plan for the parent company and also operates various other defined contribution pension plans for its subsidiaries. The Corporation contributes amounts related to the level of employee contributions for both types of plans.

The pension costs in fiscal 1999, 1998, and 1997 were $2,744,000, $2,327,000, and $1,958,000, respectively.

12. SEGMENTED INFORMATION

In June 1997, FASB issued Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, that was effective for fiscal years beginning after December 15, 1997. The Corporation adopted this new Statement in fiscal 1998 and restated all prior periods.

The Corporation operates in one business segment—computer software tools. This segment engages in business activities from which it earns license, support, and services revenue, and incurs expenses. Within this business segment, the Corporation develops, markets, and supports two complementary lines of software products that are designed to satisfy enterprise-wide business-critical needs. The Corporation's business intelligence products give individual users

the ability to independently access, explore, analyze, and report corporate data. The Corporation's client/server application development tools are designed to increase the productivity of system analysts and developers. Cognos products are distributed both directly and through resellers worldwide.

Revenue is derived from the licensing of software and the provision of related services, which include product support and education, consulting, and other services. The Corporation generally licenses software and provides services subject to terms and conditions consistent with industry standards. Customers may elect to contract with the Corporation for product support, which includes product and documentation enhancements, as well as telephone support, by paying either an annual fee or fees based on usage of support services.

The Corporation operates internationally, with a substantial portion of its business conducted in foreign currencies. Accordingly, the Corporation's results are affected by year-over-year exchange rate fluctuations of the United States dollar relative to the Canadian dollar, to various European currencies, and to a lesser extent, other foreign currencies.

No single customer accounted for 10% or more of the Corporation's revenue during any of the last three fiscal years. In addition, the Corporation is not dependent on any single customer or group of customers, or supplier.

The accounting policies for the segment are the same as those described in the Summary of Significant Accounting Policies. The required financial information for segment profit and segment assets is the same as that presented in the Consolidated Financial Statements. Geographic information is as follows: ($000s)

	1999	1998	1997
Revenue to external customers*			
U.S.A.	**$153,827**	$123,774	$ 93,714
Canada	**24,040**	22,328	19,968
United Kingdom	**41,563**	38,257	36,334
Europe	**60,502**	43,189	36,076
Asia/Pacific	**21,193**	17,286	12,093
	$301,125	$244,834	$198,185

** Revenues are attributed to countries based on location of customer*

	1999	1998
Fixed assets		
Canada	**$20,148**	$11,764
U.S.A.	**6,078**	5,041
Other countries	**3,938**	3,702
	$30,164	$20,507

	1999	1998
Intangible assets		
Canada	**$ 7,966**	$1,653
U.S.A.	**17,237**	3,331
	$25,203	$4,984

13. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

Generally accepted accounting principles in Canada requires that organizations provide disclosure in their financial statements regarding the uncertainty due to the Year 2000 Issue.

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* which establishes standards for derivative instruments and hedging activities. It requires that all derivatives be recognized as either assets or liabilities on the Balance Sheet and be measured at fair value. This Statement is effective for fiscal years beginning after June 15, 1999, which is the year beginning March 1, 2000 for the Corporation. Prior periods should not be restated. The Corporation does not expect the adoption of this Statement to have a material impact on its results of operations or financial position.

15. COMPARATIVE RESULTS

Certain of the prior years' figures have been reclassified in order to conform to the presentation adopted in the current year.

SELECTED CONSOLIDATED FINANCIAL DATA

FIVE-YEAR SUMMARY

The following Selected Consolidated Financial Data has been derived from the Corporation's consolidated financial statements that have been audited by Ernst & Young LLP, independent chartered accountants. The Selected Consolidated Financial Data should be read in conjunction with the Consolidated Financial Statements and related Notes, and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

			YEARS ENDED THE LAST DAY OF FEBRUARY		
	1999	1998	1997	1996	1995
			(US$000S EXCEPT SHARE AMOUNTS, U.S. GAAP)		
Statement of Income Data					
Revenue	**$301,125**	$244,834	$198,185	$152,186	$121,817
Operating expenses					
Cost of product license	**5,738**	3,828	3,266	3,433	3,391
Cost of product support	**11,166**	9,694	9,634	7,488	8,066
Selling, general, and administrative	**172,482**	140,882	114,617	98,908	84,342
Research and development	**42,274**	33,530	28,951	22,382	16,235
Acquired in-process technology	**3,800**	18,000	–	–	–
Total operating expenses	**235,460**	205,934	156,468	132,211	112,034
Operating income	**65,665**	38,900	41,717	19,975	9,783
Interest expense	**(527)**	(481)	(427)	(468)	(438)
Interest income	**6,430**	5,340	4,524	4,019	2,224
Income before taxes	**71,568**	43,759	45,814	23,526	11,569
Income tax provision	**13,134**	11,117	9,025	5,996	3,360
Net income	**$ 58,434**	$ 32,642	$ 36,789	$ 17,530	$ 8,209
Net income per share					
Basic	**$1.34**	$0.74	$0.85	$0.42	$0.21
Diluted	**$1.31**	$0.71	$0.80	$0.40	$0.20
Net income per share, excluding the effect of the write-off of acquired in-process technology					
Basic	**$1.41**	$1.15	$0.85	$0.42	$0.21
Diluted	**$1.39**	$1.11	$0.80	$0.40	$0.20
Weighted average number of shares (000s)					
Basic	**43,708**	44,207	43,149	41,289	39,558
Diluted	**44,470**	45,772	46,052	44,301	41,695
Balance Sheet Data (at end of period)					
Working capital	**$123,343**	$112,846	$103,727	$ 66,149	$ 38,376
Total assets	**289,129**	219,663	189,152	140,010	108,174
Total debt	**2,612**	2,457	2,655	2,744	2,823
Stockholders' equity	**162,614**	131,005	115,912	78,297	55,156

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Chair Emeritus and Counsel,
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Private Investor

Douglas C. Cameron [1 2]
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Pierre Y. Ducros [2 3]
Private Investor

Douglas J. Erwin [3]
President and CEO
PentaSafe, Inc.

Robert W. Korthals [3]
Private Investor

Renato Zambonini
President and
Chief Executive Officer

[1] Member of the Corporate Governance Committee
[2] Member of the Audit Committee
[3] Member of the Human Resources & Compensation Committee

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Terry Hall
Senior Vice President,
Worldwide Sales

Robert Minns
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New Products

Donnie M. Moore
Senior Vice President,
Finance & Administration and
Chief Financial Officer

Alan Rottenberg
Senior Vice President,
Marketing and Business Strategy

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Margaret Dacey
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Guy Dupuis
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Cognos France S.A.R.L.
Cognos GmbH, (Germany)
Cognos Limited, (U.K.)
Cognos N.V./S.A., (Belgium)
Cognos South Africa (PTY) Limited

ASIA / PACIFIC
Cognos Far East Pte Limited, (Singapore)
Cognos PTY Limited, (Australia)
Teijin Cognos Incorporated (Japan)

All subsidiaries are 100% owned except Cognos Far East Pte Limited (62.5% owned) and Teijin Cognos Incorporated (50% owned).

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COMMON SHARE INFORMATION

PRINCIPAL MARKETS

The Toronto Stock Exchange and the Nasdaq National Market are the principal markets on which the Corporation's shares are traded.

The Corporation's common shares were first listed on The Toronto Stock Exchange on August 21, 1986, on The Nasdaq Stock Market on July 1, 1987, and on Nasdaq's National Market on September 15, 1987. The stock symbol of the Corporation's common shares on The Toronto Stock Exchange is CSN and on Nasdaq is COGN.

The following table sets forth the high and low sale prices, as well as the trading volume, for the common shares for the fiscal periods shown below:

	Nasdaq National Market			The Toronto Stock Exchange		
	High (US$)	Low (US$)	Volume (000s)	High (Cdn$)	Low (Cdn$)	Volume (000s)
Fiscal 1998						
First Quarter	32.625	21.500	26,755	44.75	29.00	3,113
Second Quarter	35.000	25.000	25,746	49.00	35.00	2,839
Third Quarter	34.750	17.625	52,991	47.70	25.00	14,861
Fourth Quarter	26.250	17.875	14,499	37.30	25.50	5,161
Fiscal 1999						
First Quarter	30.500	24.875	10,637	43.25	35.10	5,826
Second Quarter	27.250	17.188	9,615	40.25	26.80	3,629
Third Quarter	21.250	14.750	12,176	32.50	22.75	4,901
Fourth Quarter	28.125	17.125	11,913	42.55	26.70	4,807
Fiscal 2000						
First Quarter (through April 16, 1999)	25.000	19.500	4,370	37.50	29.75	3,058

SHAREHOLDERS

As of April 16, 1999, there were approximately 930 registered shareholders.

DIVIDEND POLICY

The Corporation has never declared or paid any cash dividends on its common shares. The Corporation's current policy is to retain its earnings to finance expansion and to develop, license, and acquire new software products, and to otherwise reinvest in the Corporation.

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Publications of interest to current and potential Cognos investors are available, without charge. These include the Annual Report as well as the Form 10-K and Form 10-Q filings with the Securities and Exchange Commission. Requests should be made to: Investor Relations, Cognos Incorporated, 3755 Riverside Drive, P.O. Box 9707, Station T, Ottawa, Ontario, K1G 4K9; fax: 613 738 7442; e-mail: investor.relations@cognos.com. General company information is also available on the World Wide Web at www.cognos.com.

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